The Economist

AUGUST 27TH–SEPTEMBER 2ND 2005

Iraq, the war and the constitution
PAGES 22-24

America's unhappy borders
PAGES 13 AND 31

Brother Roger, Taizé's melodic monk
OBITUARY, PAGE 70

Yum! Brands' finger lickin' growth
PAGES 60-62

The oiloholics

ONLINE FEATURES
Cities Guide Go
Country Briefings Go
Audio interviews Go
Classifieds Go

PRINT EDITION

Full contents
Enlarge current cover
Past issues/regional covers

GLOBAL AGENDA
POLITICS THIS WEEK
BUSINESS THIS WEEK
OPINION
Leaders
Letters
WORLD
United States
The Americas
Asia
Middle East & Africa
Europe
Britain
Country Briefings
Cities Guide
SURVEYS
BUSINESS
Management Reading
Business Education
Executive Dialogue
FINANCE & ECONOMICS
Economics Focus
Economics A-Z
SCIENCE & TECHNOLOGY
Technology Quarterly
PEOPLE
Obituary
BOOKS & ARTS
Catch if you can
Style Guide
MARKETS & DATA
Weekly Indicators
Currencies
Big Mac Index
DIVERSIONS
RESEARCH TOOLS
CLASSIFIEDS
DELIVERY OPTIONS
E-mail Newsletters
Mobile Edition
RSS Feeds
The Economist Group
Economist Intelligence Unit
Economist Conferences
The World In
Intelligent Life
CFO
Roll Call
European Voice
Economist Diaries and Business Gifts

Print Edition August 27th 2005

The oiloholics
Oil prices could yet go higher—unless the world's biggest gas guzzlers curb their thirst ...
More on this week's lead article

Previous print editions

Aug 20th 2005
Aug 13th 2005
Aug 6th 2005
Jul 30th 2005
Jul 23rd 2005

More print editions and covers »

Subscribe

Subscribe to the print edition
Or buy a Web subscription for full access online
RSS feeds
Receive this page by RSS feed

The world this week

Politics this week
Business this week

Leaders

Oil
The oiloholics

Animal rights
Wronged

The drug industry
No pain, no gain

North America
The importance of being good neighbours

Uzbekistan
Punishment please

Letters

On Gaza, Colombia, video games, George Bush, the war of 1812, intelligent design

Special Report

Iraq's constitution
The peril of defeat and the danger of victory

United States

The church-state divide
John the evangelist?

Gay rights
Private grief, public progress

Atlanta
The well-dressed pragmatist

New York politics
Whatever you say, Gov

California's water
The eternal challenge

How to lose a waterfall
Whiskeytown's new find

Pre-emptive foreign policy
Potty Pat

Correction: Blacks in America

The Americas

Canada and the United States
The unfriendly border

Mexico and the United States
Cross-border, cross-purposes

Brazil's economy
Palocci's value

Ecuador
Free-for-oil

Asia

Race in Malaysia
Failing to spread the wealth

India's economy
Why fix it?

Bangladesh
All over the place

Papua New Guinea

Business

Pharmaceuticals
The lessons of Merck's bad day in court

Textiles
Knickers in a twist

Hollywood and DVDs
The way we were

Trade unions
Going global

Offshoring
Into Africa

Consumer and small-business software
The king of disrupting

America's booming goat industry
No kidding

Face value
The man with two daggers

Special Report

Yum! Brands
Fast food's yummy secret

The Colonel
By the bucket

Finance & Economics

Oil and the global economy
Counting the cost

Oil and exchanges
Hot oil

Wall Street
Ground Zero plus one

Indian property
Another boom

Eastern Germany
Still troubled

Economics of happiness
Change and decay

Economics focus
Pensions by default

Science & Technology

Motoring
Changing gear

Stem cells
Embryos and ethics

Pain perception
Mind tricks

Statistical modelling
The wisdom of Hercules

Books & Arts

Slavery in America
Black and white—and red all over

Asia Minor
Causes of catastrophe

Literary criticism

Advertisement

Japan's election
Out with the old guard?

Afghanistan
Lions at bay

Middle East & Africa

Egypt's presidential election
Chronicle of a result foretold

The status of Gaza
Now who takes the blame?

Burundi and Rwanda
Two paths out of hatred

Côte D'Ivoire
A general emerges from hiding

Europe

Eastern Europe's communist past
History lessons, passed and failed

Portugal's fires
Burning to build

Turkish tourism
How green is their valley

German politics
Liberals in the wilderness

Britain

Animal rights extremists
Four legs good, two legs bad

Conservative leadership race
Kinds of blue

Investigating the police
Cop killer

Crime prevention
Terrorism cuts crime

National heritage
Signor Titian or St Mary in the Wold?

Consumption taxes
The prices of sin

Triathlon
Wacky races

Articles flagged with this icon are printed only in the British edition of *The Economist*

Life of the pen

The history of mathematics
Count and die

Photography
Poetry in black and white

Obituary

Obituary
Brother Roger

Economic and Financial Indicators

Overview

Output, demand and jobs

Prices and wages

Economic performance versus potential

Money and interest rates

The Economist commodity price index

Stockmarkets

Trade, exchange rates and budgets

Exchange-rate forecasts

Emerging-Market Indicators

Overview

Official reserves

Economy

Financial markets

Advertisement

Classifieds

Jobs
Conference Producer Economist Conferences, Americas Economis....

Business / Consumer
Business Opportunity - WSI Internet Start Your Own Busines....

Tenders
Request for Expressions of ....

Property
Dr.-Ing. Ioannis M.Theologitis is developing on Tinos island....

Jobs
The Faculty of Economics and Applied ....

Business / Consumer
LAS VEGAS CASINO Major Hotel/Casino/Condomi redeve....

Sponsors' feature

Copyright © The Economist Newspaper Limited 2005. All rights reserved. | Legal disclaimer | Accessibility | Privacy policy | Terms & Conditions | Help

Politics this week

Aug 25th 2005
From The Economist print edition

AFP

America and Iraq

Amid dismal poll ratings over his handling of Iraq and a prominent anti-war protest outside his ranch in Texas, **George Bush** used a speech to veterans in Utah to defend his foreign policy. Two days later, the Pentagon said it was sending an extra 1,500 troops to Iraq to bolster security ahead of upcoming elections there. Meanwhile, Chuck Hagel, a Republican senator from Nebraska and potential candidate for president in 2008, compared the situation in Iraq to the Vietnam war.

In **Iraq** itself, Shia and Kurdish members of a constitution-drafting committee agreed on a draft, but Sunnis rejected it. Parliament was due to decide by August 25th on whether to submit it to a referendum. Violence flared in Baghdad, and between rival Shia factions in the holy city of Najaf.

See article

A federal commission on the **closure of American military bases** began delivering its recommendations. The panel, which is reviewing requests by the Pentagon, decided that two installations, a shipyard in Maine and a submarine base in Connecticut, should be saved. The final report is due to be presented by September 8th.

Slanging matches continued across **North America's borders**. Michael Chertoff, the homeland security secretary, unveiled plans to speed up deportations of illegal immigrants and beef up the department's operations along the Mexican border. Mexican officials accused their American counterparts of politicising the issue. Meanwhile, Canadian politicians fumed at the United States' decision to ignore a ruling under the North American Free-Trade Agreement against duties on Canadian lumber.

See article

California's Supreme Court ruled, in three separate cases, that the state's custody and child-support laws must also be applied to **gay couples** who raise children together. The court has refused, so far, to tackle the constitutionality of gay marriage in the state.

See article

Deny, deny, deny

Although **North Korea** continues to deny American charges that it has dabbled with making uranium as a possible second route to nuclear weapons, Pakistan's president, Pervez Musharraf, confirmed that disgraced former nuclear scientist Abdul Qadeer Khan passed uranium-making

parts and equipment to the country. This and other tricky issues are likely to be discussed when six-party talks on North Korea's nuclear future resume next week.

A **Hong Kong** judge ruled that laws prohibiting gay sex between men under the age of 21 were unconstitutional.

India's parliament passed a bill guaranteeing 100 days of employment a year to rural households.

See article

A long, hot summer—for some

Reuters

Portuguese firefighters struggled to control a blaze near the historic city of Coimbra, among the worst of dozens of conflagrations that raged through pine and eucalyptus woods all over the country. A summer of drought has helped to cause forest fires across southern Europe, including Spain and France.

See article

In **central Europe**, torrential rains caused havoc. At least 36 people were killed in **Romania**, while in southern **Germany** flood defences collapsed, and hospital patients were evacuated in a town where the Danube burst its banks.

Germany's federal Constitutional Court said that the general election scheduled for September 18th can proceed. Two members of Gerhard Schröder's governing coalition had challenged the early dissolution of parliament.

No respite

A former aide to Antonio Palocci, **Brazil's** finance minister, accused him of receiving monthly payments for the ruling party from a rubbish-contractor when he was a city mayor. Mr Palocci denied the claims. Brazil's financial markets rallied, but then fell back.

See article

Violent protests in **Ecuador's** oil-producing Amazon provinces were estimated to have cost some $400m in lost production and damage to wells and pipelines. The protesters, who began talks with the government, want more revenues from oil to be spent in their neglected provinces.

See article

At least 40 people were reported to have died when an airliner crashed on landing during a storm in Pucallpa, in the Amazon jungle; 58 people survived the crash. **Air crashes** around the world have killed some 330 people this month, the highest monthly figure since May 2002.

Pat Robertson, an elderly televangelist, said that the United States should assassinate Hugo Chávez, **Venezuela's** leftist president. The State Department called Mr Robertson's comment “inappropriate”, while Venezuelan officials said it showed the “hypocrisy” of the Bush administration's “war on terror”. Mr Robertson later apologised for his remarks.

See article

Mugabe's mess

A team from the International Monetary Fund (IMF) arrived in **Zimbabwe** for talks about the failing economy. The country owes the IMF $295m, and may be expelled from the organisation altogether in September if it cannot pay the money back.

The UN secretary-general, Kofi Annan, toured the areas of **Niger** most affected by the continuing food crisis in the West African country. Aid agencies have been sharply critical of the slowness of the UN's response to the crisis.

EPA

At a conference in Nigeria, experts worried about the consequences of diminishing **fish stocks** in Africa. Governments are looking to stimulate more small-scale fish farming inland to compensate for dwindling catches offshore.

Britain, France and Germany formally suspended their nuclear negotiations with **Iran** (saying the door was still open to future contacts), after it had earlier broken its agreement and resumed work at a uranium-conversion plant at Isfahan. A scientific panel is expected to conclude that traces of highly enriched uranium found in Iran came from equipment covertly imported from Pakistan.

Israel completed the withdrawal of all its settlers from the Gaza strip. The country's security forces also dragged the last protesters out of the remaining two West Bank settlements that had to be evacuated under the current plan. Meanwhile, Israel and Egypt finalised a deal under which Egyptian forces would police the Philadelphia corridor, between Gaza and Egypt.

See article

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Business this week

Aug 25th 2005
From The Economist print edition

China's energy buy

With oil prices hitting new records again this week, **China National Petroleum Corporation** agreed to buy PetroKazakhstan, a firm based in Canada with energy assets in the Central Asian country, for $4.2 billion. It is China's biggest-ever cross-border takeover. CNPC won the bid despite expressions of interest from India's Oil and Natural Gas Corporation, a state-run company that has indicated it may make a counter-offer. China and India are seeking to increase energy capacity as their economies expand.

BHP Billiton, the world's biggest mining group, reported an 85% rise in net profit compared with a year ago, to $6.5 billion, for the year ending June 30th. The Anglo-Australian firm set a new Australian corporate profit record. The company's good fortune, like that of other mining concerns, comes from rising demand in China.

Dinosaur?

AP

America's transport department set out new proposals on **fuel efficiency** for “light trucks”, which include sport-utility vehicles, and proposed to increase fuel economy by around 8% by 2011. The decision is partly seen as a response to the rising cost of petrol to consumers. However, environmentalists argue that the plan is feeble, does not close the loophole that allows these vehicles to consume more petrol than cars and would not cut oil imports.

The Securities and Exchange Commission brought a civil lawsuit against two former executives of **Bristol-Myers Squibb**, accusing the pair of concocting a $1.5 billion scheme to deceive investors over the firm's performance. The case is a further dent in the reputation of big drug firms and follows last week's jury award of $253m against **Merck** over the side effects of its Vioxx pain reliever.

See article

The SEC also brought civil charges against two former executives of **Kmart**. Charles Conaway, former chief executive, and John McDonald, former chief financial officer, are accused of trying to cover up a “reckless” purchase of $850m in inventory in 2001. The pair are the most senior former directors at the retailer to face action in the SEC's investigation into fraud stemming from Kmart's bankruptcy in 2002 (from which it has emerged).

Shares in **Citigroup** fell after the bank announced that another senior executive was stepping down. Marjorie Magner heads the group's consumer banking division and has worked closely with chairman Sandy Weill (who has his own difficulties with the firm) over two decades. Last month, Robert Willumstad, Citigroup's number two, also said he was going in the autumn.

After announcing an unexpected fall in first-half net profit, **Swiss Re** said that John Coomber, its chief executive, would step down at the end of the year. The world's second-biggest reinsurer will then be led by Jacques Aigrain, Mr Coomber's deputy.

The European Union sent a team of negotiators to Beijing to resolve its **textile dispute** with China. Meanwhile, pressure mounted from European retailers to distribute millions of Chinese-made garments that have been impounded in warehouses because they exceed import limits.

See article

Chat lines

Google unveiled Google Talk, its instant messaging and voice communication service that rivals products offered by Yahoo!, AOL and Microsoft. This move comes at a time of rapid growth in free phone calls over the internet through services from firms such as Vonage, which this week said it would have an initial public offering of its shares.

Northwest Airlines hired around 2,000 replacements to keep its aircraft flying as mechanics and cleaners went on strike and flight cancellations and delays began to take their toll. The company is seeking to cut over $1 billion in labour costs to stave off bankruptcy.

Reuters

See article

General Electric's jet-engine division won its biggest contract in two decades to develop an engine, in conjunction with **Rolls-Royce**, for the Pentagon's new F-35 Joint Strike Fighter. The deal, worth $2.47 billion, is competition for Pratt & Whitney, which will supply engines for the Stealth fighter until 2012.

Whirlpool won the bidding war for **Maytag**, a domestic-appliance manufacturer, in a deal worth $2.7 billion including debt. Ripplewood Holdings, a private-equity group, admitted defeat despite its earlier agreement to buy Maytag. However, the acquisition must be approved by antitrust regulators: Whirlpool controls around 35% of America's market and Maytag around 15%.

Moving down under

Toll Holdings, Australia's biggest land-transport and storage company, launched a A$4.6 billion ($3.5 billion) hostile bid for **Patrick Corp**, the country's largest cargo handler. Toll said the deal would create a logistics company that could compete in the growing Asian market, but Patrick's board of directors rejected the offer. Part of the bid would require Patrick to sell most of its 62% stake in Virgin Blue, Richard Branson's low-cost airline.

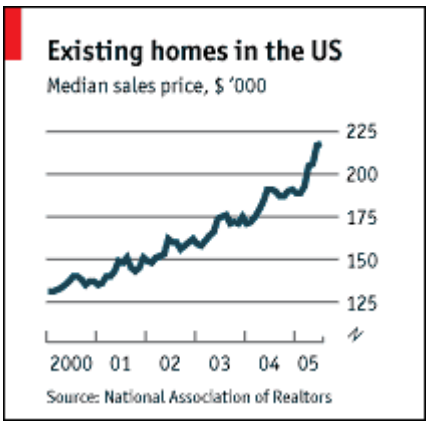
More consolidation in the shipping industry. **TUI**, a German shipping and tourism company, said it would buy **CP Ships**, an Anglo-Canadian firm, for *euro*1.7 billion ($2 billion). If successful, the acquisition will create the world's fifth-biggest container-shipping business and comes less than two weeks after A.P. Moller-Maersk completed its takeover of P&O Nedlloyd.

Following Axel Springer's offer to buy ProSiebenSat.1, **Kohlberg Kravis Roberts** and **Permira**, two private-equity firms, said they were acquiring **SBS Broadcasting**, a European television and radio operator, in a deal worth *euro*2.1 billion ($2.5 billion). John Malone's Liberty Global, SBS's

largest shareholder with an 18.3% stake, agreed to the plan.

Valuations

America's National Association of Realtors reported that the **median price of existing homes** had risen to $218,000 in July, a 14.1% increase on the same month a year earlier. However, sales of existing homes fell from June's record by 2.6% to 7.16m (at an annual rate). The figures, worse than anticipated, agitated some pundits who thought the market might be slowing, and also worried some investors. The Dow Jones Industrial Average fell by 50 points on the day the figures were released.



Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Oil

The oiloholics

Aug 25th 2005
From The Economist print edition

Oil prices could yet go higher—unless the world's biggest gas guzzlers curb their thirst

THE price of oil affects the cost of almost everything. It helps determine not just the cost of driving to work or flying off on holiday, but also the cost of furniture, food and anything else which has to be transported from factory to shop floor. The past three global recessions were all triggered by a jump in oil prices. Thus, it should be alarming that oil prices have more than tripled since late 2001. So far, though, the world economy has held up remarkably well: global GDP growth is strong and inflation remains modest. How long can this continue?

The optimists point to a host of reasons for why “this time is different” and why high oil prices will not trigger a global downturn. For example, it is claimed that in real terms, adjusted by consumer prices, oil is still cheap. Most businessmen reckon that is tosh: relative to producer-output prices, real crude oil prices are now close to a record high (see article). In any case, the notion that rising oil prices have no economic impact until they hit the previous peak in real terms is ridiculous.

Roll out the barrel

The main reason why high oil prices have so far not kiboshed the world economy is that cheap money has supported spending sprees and housing bubbles in many countries, notably America, which have offset the impact of dearer oil. The two main engines for the world, the United States and China (also the two biggest oil consumers), have both had their growth boosted by lax monetary conditions in the past couple of years. Indeed high oil prices can partly be seen as a consequence of low interest rates. The two most important prices in the world economy are the price of oil and the price of money, and they are linked. If interest rates are abnormally low (in bond yields as well as short-term rates), then as global demand increases in response, oil prices should rise—especially if production capacity is tight, as it is today.

So referring to the recent climb in oil prices as a “shock” is misleading. The market is simply responding to stronger oil demand on the back of a strong world economy. The increases in both global GDP and global oil consumption last year were the biggest for almost 30 years. Rising oil prices may even be read as a signal that global economic growth has been more rapid than existing output capacity can sustain. Normally, bond yields would perform that role. But the bond market has been behaving mighty oddly, with yields falling over the past year. The rising oil price is thus taking some of the job of constraining the world economy away from higher interest rates. From this point of view, a high oil price is quite healthy, a way of helping to prevent the global economy from overheating. A much more efficient solution would be tighter global monetary conditions. But tighter money now risks pushing the housing and borrowing booms into reverse, tipping economies into recession.

Moreover, even if rising oil prices are a natural market response to rising demand, they can still have nasty consequences for slower-growing economies, such as Europe's. Excessive growth in demand in America and China is, in effect, imposing a tax on others by pushing world prices higher than they would otherwise be. Even more serious, with little spare capacity in the oil industry, such rapid growth in consumption leaves the market vulnerable to any supply disruption, like those that initiated previous oil shocks.

This effect is exacerbated by the fact that the economies that are currently growing the fastest tend also to be the least efficient users of oil. To produce one dollar of GDP, emerging economies use more than twice as much oil as developed economies. Many emerging economies, including China and India, subsidise oil. Insulated from the reality of rising world prices, consumers guzzle more oil than if they had to pay full market prices. This, in turn, pushes global oil prices higher.

Such pressures are likely to grow. The IMF forecasts that over the next five years emerging economies could account for almost three-quarters of the increase in world oil demand. China has single-handedly accounted for one-third of the growth in global oil demand since 2000. With China's oil consumption per person still only one-fifteenth of that in America, it is inevitable that its energy demands will increase over the coming years if its income does too. But China's consumption is also being inflated because domestic petrol prices have not been allowed to rise as fast as crude prices. It is time for governments to scrap price controls and subsidies to allow the market's price signals to get through to consumers.

It is easy to point a finger at China's growing oil demand (which has in fact cooled off this year), but America remains the biggest consumer, using one-quarter of the world's output of the black stuff. America uses 50% more oil per dollar of GDP than the European Union, largely because consumers pay less. As petrol prices have hit $3 a gallon in some cities, there has been an outcry from motorists. Even so, petrol remains dirt cheap in America, compared with Britain or Germany where prices are above $6 a gallon. America's heavy dependence on oil not only leaves the economy more vulnerable to a supply shock, it also pushes prices higher for the rest of the world.

Time for a cure

The best long-term solution—for America as well as the world economy—would be higher petrol taxes in the United States. Alas, there is little prospect of that happening. America, unlike Europe, has preferred fuel-economy regulations to petrol taxes. But even with those it has failed abysmally. These regulations have been so abused that the oil efficiency of its vehicles has fallen to a 20-year low. This week, the Bush administration announced proposals for changing the fuel-economy rules governing trucks and sport-utility vehicles, but failed to close loopholes that allow these gas guzzlers to use more petrol than normal cars, a shameful concession to carmakers.

America and China, in their different ways, are drunk on oil consumption. The longer they put off

taking the steps needed to curb their habit, the worse the headache will be. George Bush once learned that lesson about alcohol. It is time for him to wean America off oiloholism too.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Animal rights

Wronged

Aug 25th 2005
From The Economist print edition

Science does not deserve to be the target of protests, whatever you think of animal rights

FLPA

EVEN if they deplore the activists' use of intimidation and violence, animal lovers everywhere can surely rejoice today. Darley Oaks, a British farm whose guinea pigs are used in scientific experiments, has finally said it will abandon the grisly trade and return to good, honest, old-fashioned farming.

Six relentless years of anonymous threats, of home-made explosives and booby-traps, and the gruesome theft of the farmer's dead mother-in-law from her grave are enough to revolt anyone—especially the family at Darley Oaks. But who could be against saving animals and who could deny that over the years something good has come from their campaign against the animal industry?

The honest answer ought to be pretty much everyone—at least anyone who takes medicine. That so many sympathise with the aims of the violent few attests to the thicket of contradictions and confusion that assists those extremists who think it is just fine to inflict pain on an animal giving its life to science—so long as he is a member of *Homo sapiens*.

Woolly thinking

People have good reason to care about the welfare of animals. Ever since the Enlightenment, their treatment has been seen as a measure of mankind's humanity. It is no coincidence that William Wilberforce and Sir Thomas Foxwell Buxton, two leaders of the movement to abolish the slave trade, helped found the Royal Society for the Prevention of Cruelty to Animals in the 1820s. An increasing number of people go further: mankind has a duty not to cause pain to animals that have the capacity to suffer. Both views have led people gradually to extend treatment once

reserved for mankind to other species.

But when everyday lives are measured against such principles, they are fraught with contradictions. Those who would never dream of caging their cats and dogs guzzle bacon and eggs from ghastly factory farms. The abattoir and the cattle truck are secret places safely hidden from the meat-eater's gaze and the child's story book. Plenty of people who denounce the fur-trade (much of which is from farmed animals) quite happily wear leather (also from farmed animals).

Perhaps the inconsistency is understandable. After hundreds of years of thinking about it, people cannot agree on a system of rights for each other, so the ground is bound to get shakier still when animals are included. The trouble is that confusion and contradiction open the way to the extremist. And because scientific research is remote from most people's lives, it is particularly vulnerable to their campaigns.

In fact, science should be the last target, wherever you draw the boundaries of animal welfare. For one thing, there is rarely an alternative to using animals in research. If there were, scientists would grasp it, because animal research is expensive and encircled by regulations (see article). Animal research is also for a higher purpose than a full belly or an elegant outfit. The world needs new medicines and surgical procedures just as it needs the unknowable fruits of pure research.

And science is, by and large, kind to its animals. The couple of million (mainly rats and mice) that die in Britain's laboratories are far better looked-after and far more humanely killed than the billion or so (mainly chickens) on Britain's farms. Indeed, if Darley Oaks makes up its loss of guinea pigs with turkeys or dairy cows, you can be fairly sure animal welfare in Britain has just taken a step backwards.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

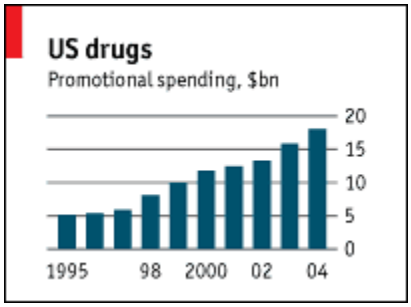
The drug industry

No pain, no gain

Aug 25th 2005
From The Economist print edition

Important lessons from the latest Vioxx debacle

Get article background



FOR medicines that were meant to relieve pain, Vioxx and its relatives—a new generation of anti-inflammatory drugs called the COX-2 inhibitors—are causing spasms all round. Since Vioxx was withdrawn from sale late last year by Merck, its maker, because of its association with an increased risk of nasty cardiovascular side-effects, sharp questions have been asked about how big drug firms communicate risks to the wider world, how they market their wares and how effective government regulators are in policing the industry. The American public now seems to distrust the very firms that are supposed to be helping to lead the fight against disease.

The latest example of this came last week in Texas, where a jury awarded the widow of a man who died of a heart arrhythmia, having taken Vioxx for less than a year, $253m in damages. Merck rightly argues that the scientific facts of the case do not support this verdict, and has vowed to appeal the decision. The award will, in any case, be vastly reduced under Texas law. And yet the verdict, even if overturned, is symptomatic of public attitudes. The jurors were outraged at evidence that Merck may have known of the risks of Vioxx years before it revealed them. The Texas case is only one of more than 4,000 filed against Merck on Vioxx. Whatever happens in those cases, Merck, like all big drug firms, now faces closer scrutiny and, probably, tighter regulation in America.

This should force the big drug firms to change their business models, sooner rather than later. That is bound to be painful. These firms have been among the most profitable in the world, and much of their profit has been earned in America, where prices are highest. But if they are to continue to thrive, and generate new drugs in the future, they need to move quickly.

Part of the drug firms' problem is that they have not, in fact, been generating enough new drugs. As the flow of genuinely original treatments has slowed to a trickle, the new drugs they have brought to market have tended to resemble those already on sale. The firms have pushed these with massive marketing efforts, aimed at both doctors and patients, reaching the latter with direct-to-consumer advertising on prime-time television and other media. The irony of Vioxx is that such blockbuster marketing, intended to bring the drug to as many people as possible, has taken it out of the reach of all. Vioxx is not a bad medicine; in fact it is a useful drug for certain patients who suffer dangerous side-effects from other painkillers. But aggressive marketing meant that those who could have found relief on other drugs were given Vioxx and exposed to its risks.

Sweet are the uses of adversity

The Vioxx episode has proven so painful for Merck (see article) that there are signs other drugmakers are learning from it. The industry's American trade body, PhRMA, has announced guidelines with a view to more balanced communication of a drug's risks and benefits. Some firms have gone further. Pfizer has said it will air ads for Viagra only during programmes for which at least 90% of viewers are adults (so goodbye Superbowl); Bristol-Myers Squibb has promised to refrain from advertising its drugs during their first year on the market.

There are signs, too, that the companies are starting to reconsider the way they sell drugs to doctors, after a backlash against the customary “food, flattery and friendship” on offer. Indeed, they may have little choice. More of the drugs to emerge from their labs in the future are likely to be for diseases such as cancer, which require detailed marketing to medical specialists for select populations. And in the longer term the drug industry will have to exploit the trend in medicine towards more personalised treatments. These are being driven by advances in genetics, which will make possible much more accurate diagnoses, and more tailored drugs, for much smaller groups of people. For these kinds of drugs, mass-consumer marketing will be even more inappropriate than it was for Vioxx. The days of the blockbuster drug are numbered.

In the wake of Vioxx and other controversial episodes, the big drug firms not only have to find a better way to market their wares, but also to rebuild their reputations with growing numbers of sceptical Americans. The best way to do that is to refocus their resources on research rather than marketing, and to come up with genuinely new treatments and more appropriate advice about how to use them. The future of pharmaceuticals lies in drugs that treat not just symptoms, but the underlying cause of a disorder. The pharmaceutical industry should settle for no less a remedy for its own condition.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com OPINION

North America

The importance of being good neighbours

Aug 25th 2005
From The Economist print edition

America's friendship with Canada and Mexico risks going sour

AFP

Get article background

"THE essential qualities of a true Pan-Americanism", remarked Franklin Roosevelt in 1933, "must be the same as those which constitute a good neighbour, namely mutual understanding and...a sympathetic appreciation of the other's point of view." That is advice which the United States would do well to heed in its relations with its immediate neighbours, Canada and Mexico. Most Americans may not be aware of it, but frustrations and resentments are building just across their borders to both south and north.

Of course, neighbourly ties in North America are closer than in Roosevelt's day. Under the North American Free-Trade Agreement (NAFTA), trade among the three countries has more than doubled since 1994 and cross-border investment climbed even faster. In the aftermath of the terrorist attacks of September 11th 2001, the United States moved quickly to sign "smart border" agreements with both Canada and Mexico, to try to ensure that the demands of security did not interrupt trade. By the standards of much of the 20th century, political ties between the United States and Mexico are warm.

Yet go to either border and you wouldn't know all this (see article and article). Fed up with the flow of illegal migrants from the south, the governors of Arizona and New Mexico this month declared a state of emergency. Violence between drug gangs recently led the United States temporarily to close its consulate in Nuevo Laredo, the busiest border-crossing point. The American ambassador bluntly criticises Mexico for its failure to prevent drug-related violence along the border. That has prompted retaliatory verbal blasts from Mexican officials.

Canada's mood is not much more cordial. Since September 11th, Canadians and Americans alike have become less keen on popping over what they liked to call "the world's longest undefended

border” for shopping or recreation. Canadians increasingly disagree with Americans over matters as varied as the Iraq war and gay marriage. They are disillusioned with NAFTA, claiming it has failed to prevent the United States from unlawfully punishing their exports of, for example, lumber.

So what? Friction is in the nature of international relations, and the problems on the northern border are different from those in the south. Yet there is a common denominator. Americans tend to see security, migration, drugs, even trade, as domestic political issues. But so they are for Canada and Mexico too. Like it or not, Americans rely on their neighbours for prosperity, energy and help with security. It behoves all three countries to show some “sympathetic understanding”.

Of drugs and migrants

On the southern border, some of the problems stem from two hypocrisies in American policy. The first is towards drugs. Prohibition, as *The Economist* has long noted, has done little to reduce demand for cocaine. It is hardly surprising that the most powerful drug gangs should have moved from Colombia to within sight of the border: power lies closest to the consumer. It is in Mexico's own interest to reform its police and criminal-justice system to control drug violence. But hectoring from American officials is less constructive than demand-reduction—or legalisation mixed with discouragement.

The second hypocrisy concerns migration. Some 10m migrants work illegally in America; at least 1m more arrive each year. They come because employers need them. Yet many risk death to get there. Terrorists, too, could make use of the people-smuggling networks. Senators Ted Kennedy and John McCain have proposed recognising the economic reality behind this issue, allowing employers to hire immigrants on temporary work permits if locals don't want the job. George Bush supports this bill, but much of his party does not, so it languishes.

Some of Canada's concerns could be addressed by deepening NAFTA—something which would benefit all three countries. Earlier this year, a report by the Council on Foreign Relations, a New York think-tank, made some sensible proposals for “Building a North American Community”. These ranged from more customs posts to aligning regulations. Two ambitious ideas deserve debate. One is to ease NAFTA's complex rules of origin, moving instead towards a customs union with common tariffs on goods from other countries (to be set at the lowest level of any of the three). The second is to find ways to help Mexico invest more in infrastructure, to spread the benefits of trade more widely in NAFTA's poorest member. In the long run, that would cut the flow of migrants, too.

At a meeting in Texas in March, Mr Bush, Canada's Paul Martin and Mexico's Vicente Fox signed up to a similar, if less ambitious, agenda. They are to meet again, perhaps in October. It is to be hoped that by then they can announce actions and not more platitudes. A safe and prosperous neighbourhood is too important a goal to leave to domestic politics.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Uzbekistan

Punishment please

Aug 25th 2005
From The Economist print edition

America and the European Union have let a dictator get away with murder

Reuters

Get article background

ON MAY 13th, the authorities in Uzbekistan opened fire on a peaceful demonstration of close to 10,000 people in the eastern city of Andijan, probably killing several hundred of them and possibly as many as 1,000. According to survivors, tanks rolled through the main square, firing indiscriminately, snipers picked off their victims from convenient buildings, and, later on, soldiers shot some of the wounded dead. That was three months ago. Since then, the European Union and America have expressed their horror at the worst massacre of demonstrators since Tiananmen Square by imposing the following sanctions on Uzbekistan:

1.

2.

3.

Weary observers of realpolitik might think that they have seen it all before: that the democracies often enough turn a blind eye to misdeeds of dictators like Uzbekistan's Islam Karimov when it suits them. But this is something special. On few, if any, occasions since the cold war has so little been done by so many in the face of such atrocity. At least China was thrown into the diplomatic ice-box for a few years after Tiananmen, and the arms embargo imposed on it is largely intact 16 years on. Myanmar remains a pariah even among pariahs—in both cases for misdeeds on about the same scale as Andijan. America claims that it is indeed pondering sanctions, but awaiting Europe's lead. This not a widely noted feature of its foreign policy these days, but there is a kind of sense behind it. A former member of the Soviet Union, Uzbekistan is a part of the widest of Europe's concentric circles. It is a member of the European Bank for Reconstruction and

Development, and it has a partnership and co-operation agreement (PCA) with the EU. So there is some justification in allowing Europe, with its famous common foreign and security policy, to take the lead.

If so, the European Union has risen to the occasion as grandly as it did over Bosnia, Iraq and on so many other occasions: with a display of spinelessness worthy of a sea full of jellyfish. First, in June, it demanded that Uzbekistan submit to an international investigation to determine precisely what happened in Andijan. Failure to comply by July 1st, it terrifyingly threatened, might lead to a “partial suspension” of the PCA. Some countries wanted to go so far as to threaten a visa ban for (some) Uzbek officials and possibly even an arms embargo—but that was reckoned to be a bit too tough.

July 1st came and went, as did August 1st. Still the EU has done nothing. It has tried to send a ranking bureaucrat, one Jan Kubis, to take a look: but Uzbekistan has refused to let him go to Andijan. Fortunately, outfits such as Human Rights Watch, the Institute for War and Peace Reporting and the Organisation for Security and Co-operation in Europe have proved more enterprising than Mr Kubis—so there is no excuse to be made that the EU does not have a pretty good idea of what happened. The latest word is that the issue of Uzbekistan may be looked at when the EU's foreign ministers meet in Wales on September 1st. But it is not even certain that the massacre of about 500 people by one of Europe's associates will merit a discussion there. Meanwhile, the Uzbek government is pressing ahead with its own investigation of what happened on May 13th. This involves beating “confessions” out of demonstrators who are made to say that they carried weapons to the square, and forcing neighbouring Kirgizstan to send Uzbek refugees back before they can tell any more tales to journalists, NGO workers, or even Mr Kubis.

But doesn't the West ignore equally grisly abuses in Chechnya? Yes, but there it can at least be argued that friendship with Russia is in its vital interest. Friendship with Uzbekistan is not. Uzbekistan has gas, but it is not very accessible to westerners. And until now America has had an airbase, but others in the region will do just as well. The failure to punish Mr Karimov discredits the West, and provides ammunition to its enemies. It has gone on for far too long.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Letters

Aug 25th 2005
From The Economist print edition

The Economist, 25 St James's Street, London SW1A 1HG
FAX: 020 7839 2968 E-MAIL: letters@economist.com

What Gaza means

SIR – Your leader on Gaza is the perfect paradigm for the mistaken approach that the international community takes towards the Israeli-Palestinian conflict ("Goodbye to Gaza", August 13th). In stating that, after the withdrawal, "It will be back to square one", you seek to belittle the magnitude of the concession that Ariel Sharon has made in providing the Palestinians with an autonomous territory for the first time in their history. At the same time, you absolve the Palestinians of all responsibility for their own fate by stating that Mahmoud Abbas does not have the willpower to stop the extremists.

But Mr Abbas must surely find the willpower. As ever, the fate of the Palestinians lies in their own hands. If Mr Abbas and the Palestinian Authority strive to create a free and lawful society and remove from their midst the incitement and violence that is so rife in Gaza and the other areas that the PA control, then, and only then, can they proceed to full statehood and independence. The onus is surely on the Palestinians and not the Israelis to take the next step, and on George Bush and the international community to put pressure on Mr Abbas, not Mr Sharon, for concessions and reform.

Jeremy Sharon
Jerusalem

SIR – It is patently evident to even the most doubting Thomas that Ariel Sharon hopes that the Palestinian Authority and Mahmoud Abbas will implode following Israel's withdrawal from Gaza. Mr Sharon has made every effort to undermine Mr Abbas's PA and prevent it becoming a potent force to maintain law and order. Actually, the PA was in effect destroyed by the Israeli military three years ago and has ceased to function as a stabilising force. It is currently ill-equipped and in desperate need to have its security equipment upgraded. The United States acknowledged this when it appointed Lieutenant-General William Ward to co-ordinate the overhaul of the Authority's arms and equipment. Predictably, the Israeli government has prevented imports of new armed vehicles and a fresh supply of arms, yet another example of the tail wagging the dog to ensure the Palestinian Authority fails in its mission, thereby allowing Israel to continue its oppression of the Palestinian people and the theft of their land and resources.

Jagjit Singh
Palo Alto, California

Off on Pastrana

SIR – You state that Colombia's president Álvaro Uribe "neutralises his most dangerous potential rival" by naming Andrés Pastrana as ambassador to the United States (The world this week,

August 6th). Your analysis is quite off the mark, to say the least. Mr Pastrana is Colombia's most discredited ex-president for having led the worst government in living memory.

Pablo Trujillo
Redditch, Worcestershire

Game on

SIR – In your article about video games, you hypothesise that gaming receives so much flak because of the generation gap and will be taken seriously "when the old are dead" ("Chasing the dream", August 6th). Although articles debunking the tie between video games and violence are helpful, there is a greater impediment that stops them becoming a respected entertainment medium that can be remedied much sooner. What the industry truly needs is for the mainstream media to begin reviewing video games alongside books, music, movies and television.

Games like "Narc" and "Grand Theft Auto" are not representative of the content of all video games, and more importantly, they poorly represent the quality of video games—the only time non-gamers hear about video games is when the media is blaming them for youth violence. Video games will not be taken seriously until people see something beyond the inane underbelly of the industry, and the older generation will not take video games seriously until the media does.

Alex Kopecky
Chicago

SIR – The role of parents seems largely to have been ignored in public discourse about adult-rated games, which has focused instead on ill-defined demands for the outright banning of certain types of games. This is the real problem disclosed by the debate about video games—the increasing reliance on state censorship as a substitute for parental responsibility.

Vincent Scheurer
London

SIR – You neglected to discuss one potential negative effect of video games. In addition to television, the games are another entertainment medium that is contributing to an increasingly more sedentary lifestyle. For more and more young people in America, the console controller and keyboard are replacing the baseball bat, basketball hoop and football.

Natasha Arnopolskaya
Boston

SIR – You are quite right to be sceptical of any linkage between video games and violent conduct. I am far too old to play such games, and yet one look at the BBC's wretched television schedules for a Saturday night is usually enough to make me want to kill.

Don Jameson
London

Not such a good sport

SIR – I was interested by Lexington's analysis of George Bush's enthusiasm for promoting fellow jocks in his administration (August 13th). I am a keen sportsman myself (of limited ability) and believe that a healthy body contributes to a healthy mind. However, by taking John Roberts's enthusiasm for sport into account when choosing him as a Supreme Court justice, Mr Bush

displays his typical dislike of thinking seriously on important issues and reminds me of the British Foreign Office's advice on Idi Amin, the now deceased, brutal dictator of Uganda: “a splendid type and a good rugby player”.

James Hart
Tokyo

SIR – Whereas traditional British public-school sports, such as rugby, cricket and rowing, all impart the importance of working together to achieve consensual goals, the sports favoured by members of the Bush administration—running, wrestling, ice-skating, golf and weight-lifting—emphasise the individual over the collective. The administration's participation in team sports, such as baseball and American football, likewise operates under this logic, with George Bush and his pals eschewing the playing field for the owner's box or the sofa. Perhaps this new “age of athleticism” also explains Mr Bush's approach to foreign policy.

Eddy Kent
Vancouver, Canada

Winning the war of 1812

SIR – There are differing versions as to who actually won the war of 1812 (Letters, August 13th). At the battle of Châteauguay in 1813, the various Canadian militias, with a few British regulars, finally sent the Kentucky invaders packing. So Canada won the war. The British captured Washington and burned the White House in 1814. So Britain won the war. But Baltimore held out, and at the battle of New Orleans in 1815 Andrew Jackson defeated a British army of crack regulars fresh from the Napoleonic campaigns. So America won the war. Wouldn't it be a good thing if all wars could end with only winners?

C. P. Anderson
Seattle

An evolving argument

SIR – Intelligent design, you say, “asks interesting questions about evolution, but since all its answers are usually ‘God', scientists have rejected it” (“Intelligent design rears its head”, July 30th). In reality, scientists working in intelligent design have taken pains not to give answers of God. Nor is intelligent design a form of creationism, unless that term is now so broad as to become almost meaningless. Creationism correctly applies to the view that life began on Earth 6,000 years ago and developed over six literal days. That is not the view of intelligent designers. In fact, the relatively sudden efflorescence of life forms in the Cambrian Era 500 million years ago is an indication that Darwin's theory of gradual, incremental evolution of life is not viable. Intelligent design, for its part, is the demonstrable proposition that certain features of the universe and of living things are best explained by an intelligent cause than by an undirected process like natural selection.

Moreover, contrary to your report, Kansas is not proposing to put intelligent design in the state's schools' science standards. What Kansas (like Ohio presently) wants to do is to teach the scientific evidence for and against Darwin's theory, and the one issue above all that Darwinists do not want to debate is the evidence for this theory. They will gladly speculate about “God”, and “creationism” and the motives of scientific challengers, of course. But they avoid the actual issue that is before America's school boards.

Bruce Chapman

President, Discovery Institute
Seattle

SIR – Bringing pseudo-science into what should be a rigorous classroom experience weakens the school curriculum and will produce a generation of graduates incapable of understanding real science. A theory is a hypothesis that has stood up to a battery of tests aimed at disproving that hypothesis. Evolution is a framework under which diverse theories that meet this definition compete. Intelligent design qualifies as neither a theory nor hypothesis as it cannot, by its very nature, be disproved. When students attribute an observation to fate, luck or supernatural forces, they have failed as scientists. The promoters of intelligent design should realise that it has no place in the sciences. Most schools have given up teaching philosophy, but that is where this subject belongs.

James Howard
Columbia, Maryland

SIR – Teaching a theory does not force a student to accept it as truth—it merely prevents him from being ignorant. Indeed, someone well-versed in a theory is more capable of refuting it.

Daniel Jobe
Jamestown, North Carolina

SIR – While many criticise intelligent design as being untestable and hence unscientific, its supporters posit that any well-designed biochemical scheme or physiological construction represents a test passed by the theory of intelligent design. Using such logic, intelligent design is even more testable than evolutionary theory. Indeed, intelligent design is not only falsifiable, but is disproved by the many examples of a lack of intelligence in the design of biological systems: for instance, the overly complex and error-prone Calvin cycle of carbon fixation or the many parts of the human body that, if they were intelligently designed, would come with a durable, non-stick coating.

David Snyder
Edison, New Jersey

SIR – The human brain has 100 billion extremely complex neurons connected by 1,000 trillion synapses. It is mathematically impossible for anything this unimaginably complex to have been the product of an unguided evolution, even over limitless aeons. One doesn't have to know the rules of mathematical probability to recognise this. The brain could only have been created by a limitless intelligence, call it what you may.

William Lloyd Stearman
North Bethesda, Maryland

SIR – The photoreceptors of the eye facing away from the light, the appendix, the birth canal exiting through a bony ring or the crossing of the air passage through the oesophagus: these bodily functions point to a poorly engineered “design”, but can be explained by evolution and anatomy.

Diane Secoy Smith
Regina, Canada

SIR – Many people are coming to see Darwinism as a philosophy of materialism masquerading as science. The scientific establishment has too much of a vested interest, both emotional and professional, to allow it to impartially judge intelligent design on the facts. Their cognitive

dissonance, and in some cases outright prejudices, will preclude them from seeing the evidence before their very eyes. They will go to their graves proclaiming their theories, just like Marx and Freud did with theirs.

Peter Skurkiss
Stow, Ohio

SIR – The theory of evolution, one of the finest products of the scientific method and formerly a bulwark against dogma, has become the instrument by which to squash alternatives and admissions to its own hypothetical nature.

David Ong
Davis, California

SIR – Would it be too much to ask for those who would bring religion into the classroom to accept devoting an equal amount of time in Sunday sermons for the “alternative” theory of evolution?

Jud Hendelman
Montreux, Switzerland

SIR – You say that “intelligent design derives from an early 19th-century explanation of the natural world given by an English clergyman, William Paley”. As one of the editors of the new Oxford University Press edition of Paley's “Natural Theology”, I would like to point out that the argument is quite ancient in origin. Cicero wrote an entire book on it, and it was prevalent in the form of natural theology from the Renaissance up until the first world war.

Matthew Eddy
Durham, County Durham

SIR – Will students be shut off from science if they study intelligent design alongside Darwin's thesis? No. Darwin said that, while at Cambridge, studying Paley (and Euclid) “...was the only part of the academical course which ...was of the least use to me in the education of my mind”. Paley's “long line of argumentation” (Darwin admiringly calls it) shows some of the challenges Darwin faced. How many people today believe Darwin yet don't know the arguments for evolution by natural selection?

Steve Crockett
Bethesda, Maryland

SIR – There is little in today's scientific creationism that was not taken up by Francis Bacon at the outset of the scientific revolution. And as he would say, proponents of intelligent design “have sought to fly up to the secrets of the Deity by the waxen wings of the senses.”

Keith Montgomery
Wausau, Wisconsin

SIR – Why would an intelligent designer place fast-growing facial hair on adult males? Is there some intelligent reason for designing men—but not women or children—to have beards? And if there is such a reason, then why do many adult males go to the trouble and expense of shaving on a daily basis?

Steven Beadle
Arroyo Grande, California

Economist.com SPECIAL

Iraq's constitution

The peril of defeat and the danger of victory

Aug 25th 2005 | BAGHDAD, CRAWFORD AND WASHINGTON, DC
From The Economist print edition

AP

The making of the new constitution is a critical moment not only for Iraq, but also for George Bush

Get article background

THOUGH it would be absurd to declare the American intervention in Iraq a success, it is still too soon to write it off as a failure. Indeed, it remains possible to contemplate widely differing outcomes, ranging from bloody chaos to a mould-breaking if messy democracy. The current constitutional exercise will be one of the determinants of overall success or failure. If it works, Iraq may set a hopeful precedent for the entire Middle East, marking a signal step forward in George Bush's much-sneered-at campaign to spread democracy to the region. If it fails, the complete collapse of America's Iraqi experiment may ensue. And both sides know it.

As a measure of the importance of the moment, violence erupted in Baghdad and in other cities the day after the draft constitution had been produced. In the capital, police checkpoints were attacked by dozens of insurgents with rocket-propelled grenades, and at least 13 people were killed. As usual, the Iraqi security forces called on the Americans for extra help. After more than two years of the occupation, Iraq is not yet anywhere near being able to stand on its own two feet, either militarily or politically. The Americans are increasingly anxious to leave, even if they know they can't.

The draft constitution that emerged on August 22nd, after two extensions of the deadline, was mostly written behind closed doors by the Shias and Kurds. These two groups—the Shias generally more pious, the Kurds more secular—seemed to reach a fair compromise on one major point, the role of religion in the state. Islam is declared to be the “official religion” and a “fundamental

source of legislation”; no law should contradict “the tenets of Islam's jurisprudence”, and the constitutional court will contain experts on *sharia* law. However, the draft gives roughly equal weight to the “principles of democracy” and to human rights, and contains a broad list of political freedoms.

The principal sticking-point lies elsewhere. Iraq's third major ethnic-sectarian group and former rulers, the Sunni Arabs, were largely left out of the drafting. They raised a score of objections to the document, ranging from a clause that bans “racist” institutions, such as the one-time ruling Baath Party, to what they see as weak language about the country's “Arab identity”. But they object most strongly to the emphasis on federalism.

According to the draft, different parts of the country are allowed to form regional governments, complete with their own security forces, similar to the system that obtains in the Kurdish north. The document drops a reference to Kurdish “self-determination”, which is seen as a right to secede, and requires extra oil revenues to go for a “limited period” to “the neglected regions which were deprived of it under the former regime”. Nonetheless, it sets up a framework for decentralisation virtually unprecedented in the Middle East.

Although they accept the Kurds' 14-year-old self-rule zone as a *fait accompli*, the Sunnis in parliament say that federalism elsewhere will splinter the country, leading to an Iranian-dominated enclave in the south and a canton ruled by their own extremists in the west. Cities such as Baghdad, with a potent mixture of all three groups, might well fracture bloodily.

The Shia block, and in particular its most powerful component, the Supreme Council for Islamic Revolution in Iraq (SCIRI), refuses to compromise on regional federalism—even though Shias dominate the central government, and therefore had been supposed to favour centralisation. Their new federal agenda is pushed partly by their constituents in southern provinces such as Basra, who believe that central government starved them of revenues from their oil. Sharing the oil wealth, say the Shias, ensures that Saddam-style centralised tyranny will never reappear.

Some of their leaders characterise the Sunnis as old Baathist reprobates, unwilling to give up the Saddamite ideal of the all-powerful central state. But the Sunnis' objection to federalism runs deeper than that. Many view SCIRI's recent conversion to the federalist cause as evidence of Iranian influence. Tehran, so the theory goes, sees an opportunity to establish a foothold in a southern federal zone, and has used its financial support for SCIRI as leverage to get this into the constitution.

Many Sunnis also loathe SCIRI's Badr Forces militia, which fought alongside Iran in the 1980-88 war and is now heavily entrenched in Iraq's interior ministry. In Sunni households, chilling stories are told of the torture of Iraqi prisoners by Badr troops during the war. Sunnis also blame Badr death-squads for a wave of assassinations of their leaders, and accuse the militia of settling wartime grudges.

The power of the insurgency

A referendum to approve or reject the constitution is due to be held in October. If it is not amended, the Sunnis will strive to defeat it. To do so, they must win either a majority of votes overall or take a two-thirds majority in three out of the 18 provinces. They are thought to be a majority in four.

But even if large numbers of Sunnis wish to vote in the promised referendum, they may well not feel safe enough to do so. Many Sunnis were deterred by insurgents from voting in the January elections, and their areas are no more secure now. Of the four Iraqi provinces that see far more

violence than any others, three, Anbar, Nineva and Salaheddin, have Sunni majorities. The fourth, Baghdad, may have a Sunni majority, as may two of the next-most-violent provinces, Diala and Kirkuk.

In these areas, the insurgency has recently been oscillating in ferocity: falling, for example, in Mosul and western Nineva in recent weeks, where American and Kurdish protection has been increased, only to peak elsewhere. Even where violence dips, however, a few assassinations or the occasional bomb-blast may be enough to intimidate. In Mosul, for example, three pro-referendum campaigners were kidnapped, then murdered, outside a busy mosque this month.

The exception to this pattern is Anbar, an arid expanse bordering Syria and watered by the Euphrates river, where many towns are mainly in insurgent hands, despite periodic American assaults. In the last major onslaught, Operation Spear, in June, around 1,000 marines supported by American and British fighter-bombers attacked the towns of al-Qaem and Karabila, close to the Syrian border. But, following a now familiar pattern, most of these troops have since been withdrawn from the area and the insurgents have reasserted themselves.

In the nearby towns of Haditha, Heet and Ramadi, insurgents have been reported openly training, levying taxes and meting out brutal justice. The organisation of Abu Musab al-Zarqawi, a Jordanian affiliate of al-Qaeda, is thought to be active there, funnelling in car bombs and foreign fighters from Syria. With virtually the entire local population hostile to both America and the Shia-dominated government, he has many allies. In recent weeks, roughly one American marine has been killed in Anbar every day.

Wanting to deflect the blame for these failures, American officials have accused next-door Iran of supplying the insurgents with sophisticated new bombs, bearing a “shaped-charge” capable of piercing modern armour. Iran has fuelled much mayhem in southern, mostly-Shia, Iraq. Yet the most active insurgents are currently Sunni, not Shia, and the vast majority of successful attacks on American armour are carried out with artillery shells and anti-tank mines, which litter Iraq in super-abundance. Fourteen marines and their interpreter were killed in Haditha early this month when their vehicle was blown off the ground by three anti-tank mines, stacked one on top of the other.

But it is true that the insurgents' tactics have grown more sophisticated. American officials have noted a decrease in the number of suicide attacks this month, from more than 200 in the previous three months. But as the rate of killing remains more or less constant, the insurgents have probably merely become more skilled at laying other kinds of bomb. The three car bombs that exploded outside a Baghdad bus station on August 17th, killing at least 43 people, are thought not to have been triggered by human detonators. Although Syria, at America's urging, has tightened its border controls, it remains easy for would-be foreign bombers to enter Iraq, and they are still eager to come.

Likelier explanations of the decrease in suicide attacks are, simply, that the weather is now too hot, or that Islamist insurgents may be storing up an especially violent campaign for the referendum period, just as they did for the weeks in April after the founding of the government. However, some insurgent groups are said to have realised that the January boycott was a strategic error, and have distributed pamphlets urging their supporters to go to the polls. In Anbar, officials have reported a recent surge in voter registration.

In their opposition to the constitution, the Sunnis believe they have allies among the Shias. Outside the deep south, many Shias look at federalism as an American-Kurdish plot. Thanks to Saddam-era “Arabisation” policies that were aimed, in part, at pitting one community against another, many Sunni Arabs now have relatives in Kirkuk, which the Kurds say should be part of Kurdistan. Muqtada al-Sadr, a radical Shia leader, strongly opposes federalism: in Najaf this week,

his men fought fellow Shias. A No campaign might also pick up votes in the north from Turkmen nationalists, and from others who are opposed to Kirkuk joining Kurdistan.

The constitutional referendum should be followed by new parliamentary elections in December. If the draft is voted down, it will probably do great damage to SCIRI and its main ally in government, the Islamist Dawa party. Ibrahim al-Jaafari, the prime minister, is from that party; he is widely perceived as a disappointing bumbler, unable to control ministries that were parcelled out to his coalition partners and are now run badly or corruptly. The defeat of the constitution would be seen as yet another example of this government failing to deliver what it promised.

On America's home front

A victory for the constitution, however, would also be no harbinger of stability. The Sunni Arabs will have made a concerted effort to push their agenda through the political system, and will have been defeated—a result which may play into the hands of those who reject democratic politics altogether. And this will be deeply disheartening news for the Americans.

The insurgents calculate that they can beat President George Bush on the home front. If they keep filling the television screens with scenes of gore, public support for the occupation will falter and Mr Bush will be forced to bring the troops home. Phases one and two of this strategy appear to be on track.

Most Americans now think the war was a mistake. A recent CBS poll found that 59% thought it not worth the loss of American lives, while 55% disliked the way Mr Bush was handling it. Opinions differed by party—79% of Republicans thought the president was doing just fine. But this and other polls show a perception of failure that rises with the body count.

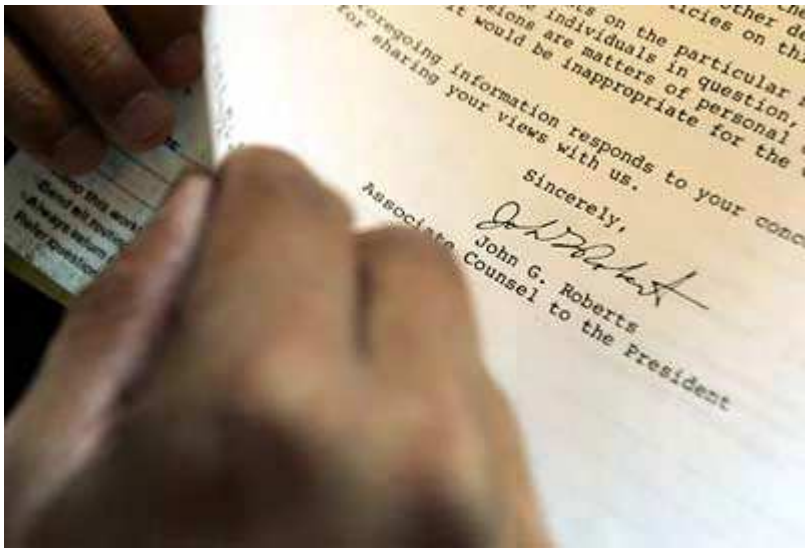
More than 1,800 American soldiers have died in Iraq. That may be fewer than perished taking one beach in Normandy in 1944, but it is also 13 times th

The church-state divide

John the evangelist?

Aug 25th 2005 | WASHINGTON, DC
From The Economist print edition

AP



Opponents and proponents alike are trying to discern what John Roberts thinks about relations between church and state

Get article background

"WHAT, if any, is the appropriate role of religion in government?" It is not only Iraqis who have to worry about such things. The question is one of several that Senator Chuck Schumer, one of the Democrats' chief inquisitors, has promised to put to John Roberts, George Bush's nominee for the Supreme Court, when the Senate starts grilling him on September 6th. Mr Roberts's views matter a lot, not least because the judge he is to replace, Sandra Day O'Connor, was often the swing voter on cases dealing with the separation of church and state.

She helped keep abortion, including "partial-birth" abortion, legal. She voted to ban prayer in schools, at graduation ceremonies and at school football games. And she frowned on religious displays on public property. In June, for example, she voted to remove framed copies of the Ten Commandments from the walls of two Kentucky courthouses, and to remove a monument inscribed with the Decalogue from outside the Texas capitol. In the former case, she was on the winning side; in the latter, she sided with the losers.

Such is the court's delicate balance. Secularists fear that Mr Roberts may upset it. Many evangelicals are praying that he will. But because he appears to have spent the past 30 years preparing for his Supreme Court confirmation hearings by expressing as few controversial opinions as humanly possible, neither side is sure.

Evangelicals tend to assume that Mr Roberts is a good thing—he has been nominated by Mr Bush,

after all—but are troubled by the *pro bono* work he once did for gay-rights groups. Secular Americans suspect he is a bad thing, but even after sniffing through 38,000 pages of documents relating to his time as a counsel to the Reagan White House, they cannot prove it.

All they have are hints. One 20-year-old memo, for example, shows that the Catholic Mr Roberts thought abortion was a “tragedy”, and that he had “no objections” to Ronald Reagan sending a telegram to be read at a memorial service a pro-life group was holding for 16,500 aborted fetuses found discarded in plastic barrels outside a laboratory director's home.

Another memo from 1985 shows that Mr Roberts thought it fine for schools in Alabama to require a moment of silence, during which pupils could pray if they wanted to. (The Supreme Court disagreed.) In 1991, as deputy solicitor-general, he co-wrote a brief urging the Supreme Court to allow schools to recite a prayer at graduation ceremonies, arguing that there was no coercion involved since attendance at such events is voluntary. (In the second case, he was acting as an advocate, so this was not necessarily his own opinion.)

In 1984, he argued that student religious groups should be allowed the same rights of assembly as other student groups. He also said he had “no quarrel” with a speech by Bill Bennett, in which the then education secretary chided the Supreme Court for barring the posting of the Ten Commandments in schools, and for barring public-school teachers from giving remedial lessons at religious schools.

Americans United for Separation of Church and State concludes from this that Mr Roberts “harbours open contempt for the separation of church and state”, and the group will oppose his confirmation. “We're on a slippery slope,” claims Robert Boston, a spokesman. If abortion were banned, gay rights rolled back, theology taught in schools instead of science and certain books unavailable because of pressure from religious agitators, “then we'd be close to a *de facto* theocracy,” he says.

True, but there are a lot of ifs in that. For instance, a handful of school boards, with Mr Bush's blessing, want to teach “intelligent design” in science lessons, alongside evolution. But most don't.

On abortion, even if Mr Roberts voted to allow states to ban it, there would still be a five-four majority supporting *Roe v Wade*, the legal underpinning for the practice. And even if another justice changed sides, the practical consequences might be less than most people imagine. The states most likely to ban abortion are the ones where abortion clinics are already rare, because local opinion is so hostile. *USA Today* has calculated that *Roe*'s reversal would force only 36 of America's 1,800-odd abortion providers to close. Unlike Mrs O'Connor, Mr Roberts might vote against partial-birth abortion, but that is a rare procedure that most Americans oppose anyway.

Gay rights are not obviously being rolled back, either (see article). Most of the religious right's energy in this area is devoted to preventing their expansion, in the form of legalised gay marriage.

All these bitterly contested issues are connected to a much older struggle about the constitutional barrier between church and state. This battle too is undecided. The law is often unclear, inviting both sides to try their luck with lawsuits. Secularists sue to stop schools from including carols as part of their Christmas celebrations. Evangelical lawyers reply: how can this be unconstitutional in a country whose currency bears the motto “In God we trust”?

Mr Roberts seems to believe that the court has, in recent decades, been more hostile to religion than the constitution demands. The First Amendment says “Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof.” Secularists think that implies, in Thomas Jefferson's phrase, “a wall of separation between church and state”. Americans United interprets this “pretty broadly”, admits Mr Boston: no prayer in schools, no crosses on

public land and no school vouchers if too many parents use them at parochial schools.

Evangelicals think this goes far beyond what the constitution requires. When the framers spoke of “an establishment of religion”, they meant something like the British system (from which America had only recently escaped), under which the king was the head of a national church and Catholics couldn't stand for Parliament or attend Oxford University. Advocates of this “originalist” view of the American constitution claim that the Supreme Court's current pro-secular stance has scant historical justification. Jefferson attended a church service in the House of Representatives two days after coining his “wall of separation” metaphor.

Before the 1960s, the establishment clause was usually held to bar the use of public money for religious purposes, but religious speech was much freer than it is today: school prayer and Bible classes were the norm. But in *Lemon v Kurtzman* (1971), the Supreme Court ruled that government actions should satisfy three requirements: they should serve a secular purpose, have primarily secular effects and not foster an “excessive entanglement” between church and state.

Squeezing lemons

This “Lemon test” largely banished religion from the public sphere. In recent years, four Supreme Court justices have generally upheld it, while four have opposed it. Mrs O'Connor voted both ways, typically striking down public displays of faith (such as school prayer) while allowing public money to be channelled to religious institutions so long as it is for a secular purpose (such as a parent spending an education voucher at a Catholic school).

If confirmed, Mr Roberts will probably have the casting vote on these issues. Noah Feldman, a law professor and author of “Divided by God”, a new book on the church-state divide, wants Mr Roberts to take a tolerant attitude towards public displays of faith, while holding the line against the use of public money for religious purposes. But he thinks the new justice may allow both.

About time, too, say many evangelicals. They've been voting Republican for decades in the hope of correcting what they see as the Supreme Court's anti-religious bias, but to little effect. Although seven of the nine justices (including Mrs O'Connor) are Republican appointees, only three—William Rehnquist, Antonin Scalia and Clarence Thomas—are reliably “conservative” on religious matters. If Mr Roberts joins that block, the religious right will rejoice. But if he rules too radically, that could drive voters to choose a Democratic president in 2008. Despite what some secularists fear, there are checks and balances to save America from theocracy.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Gay rights

Private grief, public progress

Aug 25th 2005 | LOS ANGELES
From The Economist print edition

Child-custody battles are not just for straight people

AP

Emily B, defending her own

CONSERVATIVES may well triumph in the big set-piece battles over gay marriage; but gay couples are winning less conspicuous battles when it comes to making gay family life more normal. Three decisions this week by California's Supreme Court mean the state becomes the first in the nation to give lesbian parents, when their relationships end, the same rights—and obligations—as heterosexual parents have when they split up.

The first case involves a couple in El Dorado, Elisa B. and Emily B., who had both given birth through artificial insemination from the same donor and who even breastfed each other's children. When they split up in 1999, Elisa left for San Francisco with her son, but gave financial support to Emily and her twins. This support stopped in 2001 and when Emily applied to El Dorado County for welfare benefits, the county pressed Elisa for child support. The State Supreme Court unanimously took the county's side, noting that three years ago it had ruled that men were entitled to be legal fathers even if they had not helped conceive the child: “What is sauce for the gander,” wrote Justice Joyce Kennard, “is sauce for the goose.”

A second ruling, also unanimous, centres on legal technicalities. Kristine H., the biological mother of her daughter, did not have the right, the judges decreed, to challenge a lower-court decision that had granted parenting rights to Lisa R., her former partner, including Lisa's name on the child's birth certificate in the space marked “father”.

But the most intriguing opinion, in which the court ruled by a 4-2 vote, was that K.M., a woman who provided eggs to her partner, E.G., was legally also the mother of the twin girls subsequently conceived through artificial insemination. Although K.M. had “explicitly donated her ovum under a clear written agreement by which she relinquished any claim to offspring born of her donation,” the court agreed that she had the right to change her mind and “establish a parental relationship”.

So what next? One possibility is an appeal by E.G.'s lawyer to the federal Supreme Court, on the grounds that the Californian ruling violates the constitution's equal protection clause. After all, under state law a man who donates semen to a woman who is not his wife does not become a legal father, so why should a woman who donates an egg become a legal mother? The court's ruling, argued one of the dissenting judges, “inappropriately confers rights and imposes disabilities on persons because of their sexual orientation.”

The Campaign for Children and Families, which is lobbying to place an initiative on the California ballot in June next year to ban same-sex marriage, denounced the rulings as “against nature”. No

less predictably, the National Centre for Lesbian Rights said the court's action was a victory “for children, for parental responsibility and for common sense”.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Atlanta

The well-dressed pragmatist

Aug 25th 2005 | ATLANTA
From The Economist print edition

Shirley Franklin's easy ride to re-election in a tough town

AP

Shirley, on the rise

FOUR years ago, Atlanta's city government was a bloated mess with an $82m deficit; now it is running a surplus. Four years ago, the city was seen as hopelessly corrupt; now it has an ethics plan which, to the surprise of many local sceptics, has yet to embarrass the city. Four years ago, growth was confined to the suburbs; between 2000 and 2004 the city added 13,600 housing units, more than three times what it added in the 1990s.

This is not a difficult record to defend. Which explains why Shirley Franklin, who had worked for two previous mayors before winning the job herself in 2001, faces no serious challengers this year. Her approval ratings have run as high as 80%, and she was named one of America's five best mayors by *Time* magazine in April.

There is something of a political bubble in this. Atlanta's mayor governs just 400,000 people in a metropolitan region of some 4m. And Ms Franklin's public-relations machine has been helped by the fact that she is the city's first female mayor. With her pastel suits, trademark flower pins and charisma to spare, the black Democrat has charmed not just local businesspeople but even growly white conservatives. Bob Barr, a former Republican congressman, has praised her “well-deserved reputation for honesty” and her willingness to work with his party.

But there is steel under the charm. Ms Franklin turned round the city's finances in part by cutting 1,000 jobs. She has also got her hands dirty fixing Atlanta's decrepit water-and-sewer system. Back in 1998 the city had settled a lawsuit with environmental groups and the Environmental Protection Agency, promising to meet water-quality standards. Ms Franklin is paying for a $3 billion overhaul mostly by raising local taxes, though she has persuaded the state of Georgia to lend the city $500m at low interest rates.

Ms Franklin's accomplishments are all the more remarkable considering how little of the metropolitan Atlanta area falls under her control. She has little authority over the city's public-school system, for example, and none over Fulton County, in which much of Atlanta sits. The area's economy, greatly dependent on travel and tourism, was hit hard by the September 11th attacks. Her second-term goals include adding 60,000 new jobs and increasing the total property value in the city by three-fifths, to $68 billion.

Driving up property prices seems an odd goal for a mayor of a relatively poor city, but a good deal of Ms Franklin's energy has gone into snazzy property projects. The sparkling new Atlantic Station is packed with restaurants and shops. In November a mammoth Georgia Aquarium is expected to open next to Centennial Olympic Park, to be followed next year by a revamped World of Coca-Cola Museum. Atlanta is in the running for the new Hall of Fame for NASCAR, the stock-car racing

organisation.

Ms Franklin's chumminess with property developers has certainly smartened up central Atlanta; but some people think it may also be her Achilles heel. Her decisions to nominate an ally of one particular developer to run the Atlanta Development Authority and to appoint another of his allies to co-ordinate the city's efforts to redevelop the “Belt Line”, a set of abandoned railway tracks, have raised eyebrows.

She also gets grief for siding with big business over poor locals, whether it be backing a car park near Piedmont Park or supporting an ordinance to make begging near some tourist attractions a criminal offence. Ms Franklin, admitting she has been somewhat preoccupied by water and budget issues, says she will concentrate more on poverty in her second term.

What will Georgia's battered Democrats do with their new star? In theory, Ms Franklin could follow in the path of Ed Rendell, the highly praised mayor of Philadelphia who went on to become governor of Pennsylvania. But Georgia has never had a black or female governor, and what looks like pragmatic centrism in Atlanta might seem socialist to some rural conservatives. Another idea would be to put her up against Saxby Chambliss, one of the state's two Republican senators, in 2008. There are not that many places for a pragmatist, however well dressed, to go in politics at the moment.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

New York politics

Whatever you say, Gov

Aug 25th 2005 | NEW YORK
From The Economist print edition

The Republicans are still struggling to get their act together in New York

AP

Weld is back

IF CHARM alone could win elections, William Weld would be the next Republican governor of New York state—and the first man to govern two American states since Sam Houston ran Tennessee and then Texas in the mid-19th century. But history buffs should not hold their breath.

Mr Weld, a Harvard-educated classicist, lawyer, *bon viveur*, novelist and Grateful Dead fan, said last week he planned to join the New York race, eight years after he resigned as a two-term governor of Massachusetts. The Republican nomination was thrown open last month when George Pataki, governor since 1994, ruled out seeking a fourth term next year.

Massachusetts remembers Mr Weld with jilted affection. “The first thing New Yorkers ought to know about Bill Weld”, sniped the *Boston Globe*, “is that he is built for speed, not for endurance.” After voters gave him a second term with 71% of the vote in 1994, he ran unsuccessfully for John Kerry's Senate seat in 1996, then resigned as governor in 1997 when Bill Clinton named him ambassador to Mexico, only to have the appointment blocked in the Senate by a fellow Republican, Jesse Helms, who thought Mr Weld too liberal.

Now, after five years in Manhattan as a lawyer and a private-equity investor, Mr Weld is ready for politics again. He can deal easily with any carpetbagging charges, which anyway count for little in Hillary Clinton's “home state”. He was born and raised on Long Island, and he has slotted back happily into New York business and social circles after 30 years away.

But is New York ready for Mr Weld? Parts of it are, certainly. He will find plenty of people on Wall Street willing to chip in to his campaign chest. Few there have much love for the Democratic front-runner, Eliot Spitzer, who has made his name as New York's attorney-general by investigating dodgy practices at investment banks and mutual funds (though that has not stopped some giving money to him). Recent polls have shown Mr Spitzer robustly ahead of any available challenger.

Mr Weld must have a chance: he is cut from the same moderate Republican cloth as Mr Pataki and the last two mayors of New York City, Rudy Giuliani and Michael Bloomberg. Rockefeller Republicanism has proved remarkably popular in a state packed full of Democrats. It could do so again, but only if Mr Weld can unite his own party behind him.

This is where the problems begin. Mr Weld's liberal social views—he was described a few years ago as a “pro-choice, gay-friendly libertarian”—have long made him a hate figure on the right. Mr Giuliani had similar views, but he hid them behind an endearing (to conservatives) plebeian snarl;

nobody accused him of being a waspish dilettante.

Mr Weld, who has been accused of that rather too often, could have a serious fight ahead for the Republican nomination, perhaps against Thomas Golisano, a businessman who has run three times for the governorship on the ticket of the small Independence Party, and whom some Republicans have lately been courting. By contrast, Mr Spitzer, another bruiser, has the Democratic ticket sewn up.

Meanwhile, the New York Republicans' other attempt to launch a surprise candidacy this month has also run into trouble. Jeanine Pirro, the telegenic district attorney of Westchester County, had thought about running for governor, but opted to challenge Mrs Clinton instead. Ms Pirro also comes from the moderate wing of her party; but her candidacy is now stuck in questions about her husband, who went to prison for tax fraud. Her backers point out that New Yorkers have forgiven Mrs Clinton her own less than perfect husband, but as one Republican wag puts it: “Generally, you like your candidates to talk about convictions, but not their husband's convictions.”

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

California's water

The eternal challenge

Aug 25th 2005 | LOS ANGELES
From The Economist print edition

A new nightmare for greens: conserving water may encourage sprawl

A CENTURY ago, William Mulholland scared up support in Los Angeles for an aqueduct to bring water from the Owens Valley. “If you don't get the water now, you'll never need it. The dead never get thirsty.” Nowadays, the brutish water baron's bailiwick, the Los Angeles Department of Water and Power, merely “urges Los Angeles residents and businesses to take measures to conserve water during the hot weather.”

That familiar advice, issued on August 1st after “brief water outages” in the West San Fernando Valley, will not be the last appeal to Angelenos' doubtful sense of civic responsibility. Back in Mulholland's day, Los Angeles had 200,000 residents; now it has 3.8m. The state's population is due to rise from 36m residents to 48m by 2030; and so will its thirst for water—to fill swimming pools, wash cars, water lawns, build golf courses and keep orchards from reverting to deserts.

Is this sustainable? A recent report from the Public Policy Institute of California reckons that if per capita urban use of water remains at its 2000 levels of 232 gallons per person per day, California will need another 3.6m acre feet of the stuff by 2030—a 40% increase on the current level. (An acre foot, almost 326,000 gallons, is the amount of water needed to cover one acre to a depth of one foot.)

Part of the challenge will be geography. Most Californians live in the arid southern bit of the state; the water they need comes from the Sierra Nevada mountains in the north and from California's share of the Colorado river to the east, which its fast-growing neighbours covet. It is not hard to see why greens bleat about California's growth being unsustainable.

However, California's real problem (as the PPIC report makes clear) remains not shortages but allocation and pricing. Farmers, who use up to 80% of California's water, deplore the demand that comes with urban sprawl; city-dwellers see no reason to be held hostage by the farmers, who employ no more than a million workers a year; and environmentalists accuse almost everyone in sight of both wasting water and polluting it.

Peace, of a sort, has broken out—the result of three changes in the aftermath of the 1987-92 drought. In 1994, state and federal agencies hashed out a deal to restore the Sacramento-San Joaquin Delta ecosystem while still ensuring a sufficient supply of water. In 2001, the state legislature passed two “show-me-the-water” bills that require developers first to prove they have access to water while still, as required by previous legislation, satisfying environmental worries. Finally, in 2003, another deal was brokered with six other states and the Department of the Interior, whereby California kept its access to the Colorado river but reduced its demand from more than 5m acre feet to the 4.4m acre-feet limit it had agreed to—and ignored—as long ago as 1929.

These deals might seem to put a limit on the state's sprawl. Perversely, however, the conservation measures that greens have long championed will now allow further expansion. Peter Gleick, of the Pacific Institute of Oakland, reckons that California could save 30% of its current urban water use simply by fully implementing existing conservation technologies.

Even small things can make a difference. The Metropolitan Water District, which distributes most of southern California's water, notes that people in Sacramento, which has no metering system, use 271 gallons a day; by contrast, per capita use in metered Los Angeles is just 155 gallons a day, not least because the water department has also installed 1.24m low-flush toilets since 1990. There is also water to be saved in delivery systems: according to the Department of the Interior, each dollar spent modernising a canal brings a return of up to $5 in conserved water.

Then there is the issue of pricing. Stephanie Pincetl, a visiting professor at the University of California, Los Angeles, argues that more places should adopt progressive pricing (the more you use, the higher the rate). Sprinkler-dotted Beverly Hills, which is notoriously profligate, has just added a fourth tier to its pricing structure.

The most obvious opportunity for better pricing and better conservation, however, is in farming, especially in the vast Central Valley. The federally financed Central Valley Project is the largest irrigation system in the country, supplying some 20,000 farms with enough water to serve ten cities the size of Los Angeles. But whereas the cities have to pay anything from $400 to $600 for each acre foot, a Central Valley farmer may pay only $80.

The farmers point out that they are closer to the source and do not have to pay the transport and purification costs that the cities have to bear. But they are also massively subsidised: they pay no interest on the capital cost of the irrigation project, now more than 50 years old. Indeed, given the small amount of principal so far repaid, Barry Nelson of the National Resources Defence Council reckons the valley's farmers are enjoying what amounts to a 500-year interest-free loan—quite apart from cheap energy and subsidies for pasture land and for growing low-price crops such as cotton, rice and alfalfa.

Hence a fundamental problem: as long as America wants California to be its bread-basket, providing produce that can be grown much more cheaply elsewhere in the world, California's

farmers will need cheap water—and if their water is cheap, they have no incentive to conserve it. Why, for example, should they invest in expensive sub-surface drip-feed irrigation when they can simply let water flood across a field?

Conservation does not solve everything—and it can have unintended consequences. Ms Pincetl notes, for example, that re-lining the All-American Canal to stop seepage into the groundwater affected the wetlands south of the border with Mexico—and resulted in a lawsuit by a Mexican NGO against America's Department of the Interior. And, for the true gloomsters, there is always global warming: if the snows that fall on the Sierra Nevada are replaced by rain, too much of California's water supply will run off to the sea instead of sinking into the groundwater. Then the battle between the cities and the farmers would turn really nasty.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

How to lose a waterfall

Whiskeytown's new find

Aug 25th 2005
From The Economist print edition

Well, haven't you?

AP

California's somewhat lax attitude to water conservation is well represented by Whiskeytown Falls. What other state could “lose” a 400-feet (122-metre) waterfall for half a century? Two years ago, Russ Weatherbee, a biologist in Whiskeytown National Recreation Area in the far north of the state, found a dusty map from the 1960s at the back of a cupboard, which listed a spectacular waterfall on his patch that no official knew about. The map turned out to be wrong, but with the help of aerial photographs and the park's geologist, Brian Rasmussen, Mr Weatherbee eventually found the falls—just under a mile away from where the map said. The falls, which had been kept secret since the 1950s, are among the most spectacular in the country. Construction has begun on a path to allow hardy locals to witness the cataract's three water tiers plunging down granite chutes and terraces on their way to Crystal Creek below.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Pre-emptive foreign policy

Potty Pat

Aug 25th 2005 | WASHINGTON, DC
From The Economist print edition

How to help Hugo Chávez stay in power

EPA

Turning time on its head

WHAT Pat Robertson prays for can come to pass. He prayed for a vacancy on the Supreme Court and—lo!—Sandra Day O'Connor retired. But the decreasingly popular televangelist seems to notch up more misses than hits. His fulminations against oral sex do not seem to have nipped the practice in the bud (or so we are told). And his warning that "earthquakes, tornadoes and possibly a meteor" would strike Disney World for hosting a "Gay Day" came, alas, to nought.

So Hugo Chávez, Venezuela's populist president, can probably sleep easy, despite Mr Robertson's suggestion this week that he be assassinated for defying America. "We have the ability to take him out," he told his tele-flock on August 22nd, "And I think the time has come that we exercise that ability. We don't need another $200 billion war to get rid of one, you know, strong-arm dictator."

Mr Robertson's relations with strong-arm dictators have not always been so unfriendly. He was rather chummy with Mobutu Sese Seko, the pink-champagne-gargling robber-despot of Zaire. And the erstwhile Republican presidential candidate gnashed his teeth when America helped depose Charles Taylor, the tyrant of Liberia, whose men carried out abortions with machetes, killing the mother as well, for fun.

Mr Chávez affected to be unruffled: "I don't know who this person is...what he opines makes no odds to me." But he must be delighted. Mr Robertson has put him where he loves to be: at the centre of media attention and of the rhetorical hostility of "American imperialism". The Bush administration, however, was swift to disavow the rant and Mr Robertson eventually apologised. Mr Chávez's officials said it exposed the hypocrisy of America's "war on terror".

Mr Chávez has claimed in the past that George Bush plans either to assassinate him or to invade Venezuela to quash his "Bolivarian revolution". He has used this as a pretext for forming an armed militia, which in practice is likely to be used to crush his opponents at home. Mr Robertson's outburst comes as American officials are trying to tone down a war of words with Mr Chávez, which many recognise has achieved little but the alienation of other, better governments in Latin America.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Correction: Blacks in America

Aug 25th 2005
From The Economist print edition

In our special report on blacks in America ("Free to succeed or fail", August 6th) we said that blacks make up 62% of metropolitan Atlanta's population; the correct figure is only 29%, though they do account for 59% of the city of Atlanta.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Canada and the United States

The unfriendly border

Aug 25th 2005 | OTTAWA
From The Economist print edition

Reuters

A withering of people-to-people contacts augurs ill for a historic friendship

Get article background

TRAVEL across the border between Canada and the United States long followed a predictable pattern. When the Canadian dollar went up, shoppers would flood south and a few budget-conscious American tourists would forgo their vacation among the moose, mountains and Mounties. There was even a rough rule of thumb: for every 10% appreciation of the loonie (as Canadians call their currency) against the greenback, there would be a 13% increase in the number of Canadians going south and a 3% decrease in the number of Americans heading north.

Recently this pattern has broken down. In the past two years, as the loonie soared from 72 cents to its current level of 83 cents to the American dollar, the number of cross-border shoppers has barely budged (see chart). Meanwhile, the number of Americans heading north has dropped 22% since 1999—a far bigger decrease than the rule of thumb would indicate.

Contrast this with the last big loonie appreciation, in 1991. In that year, Canadians made almost 60m day trips across the border (or two for every man, woman and child). They went for cheaper groceries and petrol, and a bigger variety of products than they had back home. Spurring them on, too, was a newly imposed value-added tax. Crossing the border was easy, with only a driver's licence, birth certificate, or even a friendly wave needed to pass through some customs posts. In 2004, by contrast, just 21.4m day trips (only two for every three Canadians) were made, according to Statistics Canada.

Behind these numbers lie several small things—and one big thing which points to a deeper change in relations between Canada and the United States. The small factors, which apply on both sides of the border, include rising petrol prices and higher houses prices, which have cut spending on leisure. Since 1991, many big American retailers, such as Wal-Mart and Best Buy, have opened stores in Canada. Others, such as J.C. Penney, target Canadian shoppers through their websites. The big factor is the terrorist attacks of September 11th 2001, which have had both physical and psychological effects.

Physically, the border is harder to cross. A recent report by the Coalition for Secure and Trade-Efficient Borders, a Canadian business group, identified 44 government agencies in the two countries that now have some jurisdiction over border issues. More means slower: eight of the top ten crossing-points are either bridges or tunnels (the busiest, between Windsor in Ontario, and Detroit in Michigan, features both). They have become bottlenecks, with long waits.

Tighter security parallels widening gaps in attitudes between Canadians and Americans. Despite a shared history and the world's biggest bilateral trading relationship, attention nowadays focuses on issues that divide the two countries: the war in Iraq, decriminalisation of marijuana, legalisation of gay marriages, and the recent ban on cattle exports after three cases of mad cow disease in Canada. This week, Canadians are fuming at a decision by George Bush's administration to ignore a ruling under the North American Free-Trade Agreement which found that countervailing duties imposed on Canadian softwood lumber in 2002 were unlawful. Few talk approvingly any more about the world's longest undefended border.

Canada abounds with scary tales about what the new American security regime can mean for the unwary. One such was Michel Jalbert of Pohenegamook, a village in Quebec. Mr Jalbert was on a hunting trip in October 2002 when he crossed 45 feet into Maine to visit a petrol station. Following longstanding local practice, he did not check in with the customs office further down the road. The Americans' Border Patrol arrested Mr Jalbert and charged him with being an illegal immigrant and possession of a firearm. He spent 35 days in jail before an official protest from the Canadian government caused Colin Powell, then America's secretary of state, to intervene.

What of American travellers to Canada? Two film stars, Michael Douglas and his wife Catherine Zeta-Jones, made headlines recently when they bought a holiday home near Mount Tremblant, a ski resort in Quebec. But they are not following a trend. Americans are travelling abroad less, and Canada is no exception. Americans made almost 10m fewer trips to Canada in 2004 than they did in 2000. Hardest hit is Ontario; Americans made up 95% of visitors to the province. (Alberta and

British Columbia rely more on Asian visitors and Quebec looks east to European tourists.) William Fatt, the boss of Fairmont Hotels and Resorts, which manages a string of posh hotels in Canada as well as London's Savoy Hotel, said his group's profits would be lower this year because the strong loonie and border hassles were keeping American customers away.

The Ontario government is surveying potential American tourists to find out why they are staying away. Border issues were the main reason, but respondents also mentioned the SARS respiratory infection, which hit Canada in 2003, mad-cow disease, terrorism and the fact that Canada recognises homosexual marriages.

The latest survey contained two other findings that suggest many Canadians and Americans will not soon go back to their previous friendly habit of dropping in on each other. One is that America is phasing in a new requirement for its citizens travelling to Canada, Mexico and the Caribbean to have passports. Since only 34% of Americans over the age of 18 have a passport (compared with 41% of Canadians), tourism officials north of the border fear that potential visitors will be deterred by the extra paperwork. More worryingly, respondents gave anti-Americanism among Canadians as the second most important reason they were inclined to stay at home. Greg Hermus, of the Canadian Tourism Research Institute, an industry body, says that Canadians have similar fears about American attitudes. “Both sides feel less welcome in the other country.” The change in travel habits may be much more than a passing blip.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD LATIN AMERICA

Mexico and the United States

Cross-border, cross-purposes

Aug 25th 2005 | LOS ANGELES AND MEXICO CITY
From The Economist print edition

Markets for drugs and migrants collide with political grandstanding

Get article background

IF YOU ask any Mexican politician what his country's foreign-policy priority must be, the response is the same: maintain good relations with the United States and improve the lot of migrants heading north. But Mexico ranks far lower on the list of American policy aims. When asked what his government's priorities on the long border between the two countries were, an American official spoke of the threat of terrorism, adding “We have to protect our homeland above anything else.” At border crossings, American officials scrutinise passports for signs of a visit to the Middle East.

These two different priorities, migration and security, are now colliding with cross-border politics and a wave of drug-related violence. In mid-August, the governors of New Mexico and Arizona both declared states of emergency along their southern borders. Bill Richardson, New Mexico's governor, writing in the *Los Angeles Times*, painted a lurid picture: “Masked men kidnap three teenage girls. A sniper fires shots at the local sheriff. Property is destroyed at homes and businesses. Mexican cattle suspected of carrying bovine tuberculosis are found on ranches. Seven people reportedly are attacked and robbed at gunpoint.” Border counties in both states will now get extra funds.

But how much of this is gesture politics? Mr Richardson and Janet Napolitano, the governor of Arizona, are both Democratic governors in Republican-leaning states and have no wish to be considered “soft” on illegal immigration ahead of next year's elections. Self-styled “Minutemen” camped out on Arizona's border earlier this year, ostensibly to reinforce the undermanned federal Border Patrol. Right-wing television and radio stations regularly denounce the federal government's failure to “secure the border”.

To Mexican officials, all this ends up muddying migration with the separate problem of violence by drug traffickers. Both are driven by market forces—but of different kinds. The demand for cheap labour for farms, hotels, restaurants and building sites north of the border is unabated, as is the supply of impoverished Latin American labour. Border fences in California have driven migrants to the dangerous deserts of Arizona and New Mexico. Since last October, 124,400 illegal immigrants have been caught in the Yuma sector of the Arizona border, a 46% increase over the same period a year before. By contrast, California's San Diego and El Centro have seen falls of 13% and 30% respectively. Overall, the number of arrests is just over a million, 2% higher than last year. But for every couple of migrants caught (many are repeat offenders), one will probably make it through.

Mexican officials claim that the surge in violence is the result of their success in decapitating two big drug gangs, triggering a turf war. After several hundred execution-style killings in northern Mexico this year, the United States briefly closed its consulate in Nuevo Laredo. “The longer that violence continues, the tougher it becomes for many Americans to talk about Mexicans as our trusted partners,” Tony Garza, the outspoken American ambassador, said on August 16th. He

admitted that he had closed the consulate in part to punish Mexico for its failure to control the violence.

In response, Vicente Fox, Mexico's president, noted that the traffickers were supplying American consumers. “What's being done on that side?” he asked. Mexican officials accuse Mr Garza of “politicising the issue of security”. They insist that they are co-operating closely with the United States. But relationships are not all brotherly. The Americans “don't trust the Mexican police, and they are right”, says Jorge Chabat, a researcher at CIDE, a university in Mexico City. Recent reforms have barely begun to tackle the problem of police corruption.

Despite the bad blood between the politicians, Mexicans are still eager to go to the United States. A poll released this month by the Pew Hispanic Centre found that 46% said they would move to the United States if they had the chance. While Americans may be being dissuaded from making cross-border trips, they are keener than ever on holidaying in (or just off) Mexico, especially in cruise ships.

In the end, the cruel logic of the border is that tighter controls mean greater rewards for those who smuggle drugs and people—including, potentially, terrorists—across it. Political grandstanding will make little difference while the United States' policies on drugs and immigration are so out of kilter with reality.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Brazil's economy

Palocci's value

Aug 25th 2005 | SÃO PAULO
From The Economist print edition

Worries about the finance minister

Get article background

"NO ONE is indispensable," declared Brazil's finance minister, Antonio Palocci, in the course of a two-hour press conference called to rebut allegations of corruption against him. A scandal over illegal payments to legislators and irregular party financing has already toppled leaders of government, Congress and the ruling Workers' Party (PT), to which Mr Palocci belongs. On August 19th it reached Mr Palocci himself. A former aide who became a manager of a rubbish-collection firm accused him of taking a monthly pay-off from the company (and passing it on to the PT) when he was mayor of Riberão Preto, a city in São Paulo state. For the first time since the corruption scandal began in May, speculators panicked, dumping Brazilian bonds, shares and the *real*.

The aide offered his testimony as part of a plea-bargain, and Mr Palocci's self-defence was spirited. That initially calmed markets down, but then the edginess returned. Although the economy is fairly sound, the scandal could yet shake it. Mr Palocci has been the government's champion of tight fiscal and monetary policies. These have saddled Brazil with the world's highest real interest rates and exporters with an uncomfortably strong currency. Yet they have also held down inflation and public debt—a big reason why the political crisis has not been accompanied by an economic one.

So far, Mr Palocci has managed to combine stability with moderate growth. In 2004 the economy grew 4.9%. Growth is likely to slow to 3% this year before picking up again in 2006. Even with the

strong *real*, exports are booming. The trade surplus is heading for a record $40 billion this year, which makes foreign debt more manageable and helps shield the economy from financial panics. Domestic credit is buoyant, thanks partly to government wheezes such as bank loans repaid from workers' paycheques. Lending to households is rising sharply, helping sales of white goods, notes Mario Mesquita, an economist at ABN Amro, a bank.

Investment, though, has lagged. Although sales of machinery and equipment are growing strongly, construction, which accounts for two-thirds of investment, is weak partly because of high interest rates. Inflation is edging down towards the central bank's target of 5.1%, which ought to allow a long-awaited easing of monetary policy. That will not happen if markets lose faith in the government's commitment to stability.

Mr Palocci insisted that his policies would survive even if he is forced out. That is probably true. Brazil's president, Luiz Inácio Lula da Silva, has backed him staunchly, in part because abandoning austerity would be unpopular. According to IPSOS, a polling firm, voters are unwilling to sacrifice low inflation for faster growth. Were Mr Palocci to go, Lula would probably replace him with a like-minded technocrat, such as one of his aides. But there would be a cost. Next to Lula, Mr Palocci is the PT's weightiest politician in the government and the ablest defender of austerity and economic reform. His exit would demoralise an embattled president. A successor with the same ideas might have more difficulty realising them.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Ecuador

Free-for-oil

Aug 25th 2005 | QUITO
From The Economist print edition

The president gets a taste of his own medicine

Get article background

UPSET the rule of law and you risk a free-for-all. That is what is happening in Ecuador. It began with Lucio Gutiérrez, the president elected in 2002 who last year dissolved the supreme court. In April, Mr Gutiérrez was replaced in a congressional coup by Alfredo Palacio, his estranged vice-president. Dr Palacio, a cardiologist, announced ambitious plans for social spending. He changed the law to divert part of a fund of windfall oil revenues from debt payments to social spending, placing in doubt loans of $400m from the World Bank and others. Now, protesters in the oil-producing, but poor, provinces of Sucumbíos and Orellana, in the Amazon, have taken matters into their own hands.

A week of protests shut down the main oilfields, causing the loss of at least 1.5m barrels of oil before talks began on August 21st. The protesters, not unreasonably, want a bigger slice of oil revenue for better health, education and roads in a neglected part of the country—more or less the same as Dr Palacio. Though more violent, their methods, too, bore some resemblance to those which brought the president to power: they dynamited pipelines and vandalised pumps belonging to the state oil firm, and sacked a government building in the town of Lago Agrio. Initial estimates suggest that the protests could cost the government some $400m (or 1.3% of GDP) in lost revenue and repairs. Oil output may not return to normal until November.

Oil provides about a third of the government's revenue. The protests will make it harder still for Dr Palacio to achieve his social goals. Venezuela's president, Hugo Chávez, ever eager for political clients, in July offered to buy up to $500m in Ecuadorean bonds. But the government's financial hole is now even bigger.

Dr Palacio's initial popularity has quickly faded. He lacks political experience and party backing. He is trying to exercise some authority. He wants to avoid a break with the World Bank, prompting his finance minister to quit. He fired the defence minister, who had failed to secure oil installations. He refused to talk to the protesters until they called a truce, or to entertain their demand to expel foreign oil firms. But it was not clear if the saboteurs would face charges. Dr Palacio lacks the legitimacy of an electoral mandate. Even if he survives until a fresh election due in October 2006, Ecuador—a potentially rich country—will continue to struggle.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

Race in Malaysia

Failing to spread the wealth

Aug 25th 2005 | KUALA LUMPUR
From The Economist print edition

The world's most notorious system of positive discrimination has had only limited success, and hardly any recently. What, if anything, should replace it?

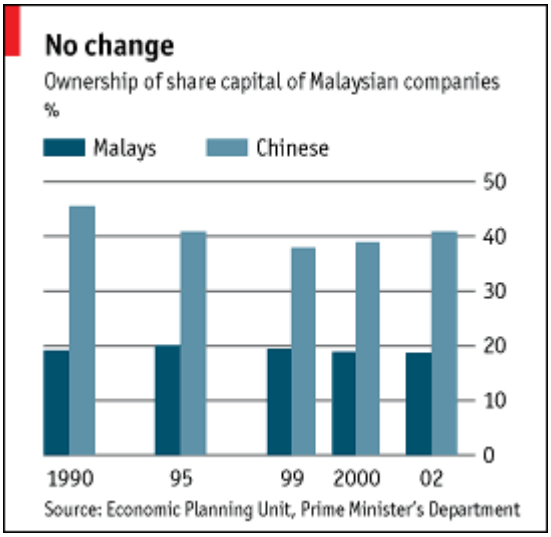
SHOULD Malays, Malaysia's largest ethnic group, receive more special privileges, or fewer? That, in a nutshell, was the focus of debate during the country's recently concluded round of political party conferences. The youth wing of the United Malays National Organisation (UMNO), the ruling, Malay-based party, called for a revival of the spirit of the New Economic Policy (NEP), which first ushered in affirmative action for Malays in 1970. The prime minister and leader of the party, Abdullah Badawi, agreed that the NEP needed fixing, as it had imbued Malays not with the intended spirit of entrepreneurialism, but with an unfortunate proclivity for rent-seeking. But many Malaysians, both Malay and non-Malay, wonder whether the NEP is needed at all.

In Malaysia, as in many South-East Asian countries, the Chinese minority traditionally controlled the lion's share of the economy, while Malays worked as farmers or fishermen. In 1969, resentment at this situation helped to fuel a convulsive bout of race riots. The government of the day (also led by UMNO) settled on affirmative action as a means to defuse racial tensions. Most jobs in the bureaucracy were reserved for Malays, as were the majority of government contracts. Quotas were set for university admissions, allowing Malays to win places ahead of better qualified Chinese and Indians. Companies were supposed to place at least 30% of their shares in Malay hands. Developers were required to sell a certain proportion of housing and commercial property to Malays, often at a discount—and so on and on.

By some reckonings, the NEP has been a success. For one thing, there have been no more race riots in Malaysia, unlike neighbouring Indonesia, which witnessed anti-Chinese pogroms as recently as 1998. What is more, Malaysia has prospered since its adoption, unlike countries with

more heavy-handed redistributive policies. The Malay professional class has grown rapidly from a negligible base: over 30% of lawyers and almost 40% of doctors are now Malay. So, for a time, did the ranks of Malay businessmen: between 1970 and 1990, the Malay share of Malaysian firms rose from 2.4% of equity to 19.3%.

Since 1990, however, the Malay share of equity has stagnated at around 20%, despite all manner of government incentives to raise it (see chart). Blame lies partly with the Asian crisis of 1997, which put a greater share of equity in foreign hands. The rent-seeking the prime minister complained of also plays a part: Malays snap up the shares reserved for them in initial public offerings, for example, and then sell them on at a profit. Perhaps the biggest failing of the scheme, however, is the culture of cronyism it has engendered. Earlier this year, when the authorities revealed the list of Malays granted valuable permits to import foreign cars, the main beneficiaries turned out not to be struggling Malay entrepreneurs, but former officials at the Ministry of Trade. By the same token, the government of Mahathir Mohamad, the previous prime minister, built up a coterie of Malay tycoons through lucrative concessions, only to see many of them go spectacularly bust during the Asian crisis.



No wonder, then, that disenchantment with affirmative action has grown among Malaysians of all stripes. The NEP, after all, was originally billed as a temporary measure. But when it expired in 1990, it was renamed, but hardly changed. In recent years, Indians have supplanted Malays as Malaysia's most disadvantaged ethnic group, but do not enjoy the same privileges. Poorer Malays, meanwhile, are frustrated with the slim returns from a policy adopted in their name.

Many UMNO members argue that the system of racial preferences only needs a little fine-tuning. They point out that the government is already placing less emphasis on creating Malay captains of industry, and more on promoting professional Malay managers. State-owned enterprises are also trying to foster competition among Malay firms, by forcing them to compete with one another for contracts instead of clinching them in back-room deals. Other mooted reforms include placing greater emphasis on helping poor Malays specifically and drawing up government contracts in a way that prevents sub-contracting to non-Malay firms.

But a surprising number of Malays, as well as Chinese and Indians, argue that racial preferences should be abolished altogether. In line with western critics of affirmative action, they contend that the NEP has fostered a culture of dependency, and so undermined its supposed purpose of Malay advancement. Non-Malays who are forced to study abroad for lack of university places at home actually get a better education, and feel more of an obligation to make the most of their

opportunities.

Anwar Ibrahim, a former deputy prime minister and now a leading opposition figure, argues that all forms of affirmative action should be abolished. Nik Aziz Nik Mat, the leader of Malaysia's biggest Islamic party, agrees: Islam, he explains, frowns on racial distinctions. Even Dr Mahathir, once a fierce proponent of affirmative action, argues that his fellow Malays are becoming too accustomed to leg-ups and hand-outs. Towards the end of his tenure, he abolished the quota system for university places. The results were mixed: the proportion of Malay students rose somewhat overall, but it fell in the most competitive courses, including law and medicine. That drop, in turn, led many UMNO members to demand that quotas be reinstated, and prompted some wags to ask whether it was really the party itself that had become politically dependent on the system of racial preferences.

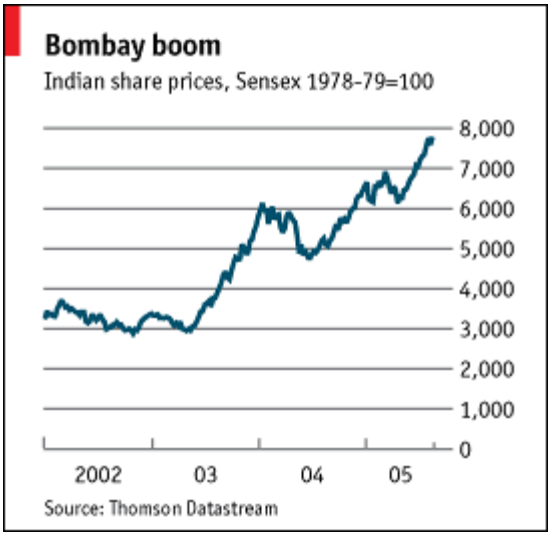
Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

India's economy

Why fix it?

Aug 25th 2005 | DELHI
From The Economist print edition

Just don't say it's shining



Get article background

ECONOMIC growth, for the third year running, of more than 6%; a stockmarket that, until this week at least, was testing new highs and had risen by more than 50% in a year; buoyant exports, a credit boom and bulging reserves of foreign exchange. India is, once again, enjoying a burst of economic optimism. Sadly, it is also suffering a stalling of the economic reforms that laid the foundations for recent successes. Oddly enough, they were launched in 1991 under Manmohan Singh, now prime minister, as minister of finance.

The summer monsoon can still make or break India's economic forecasts. Agriculture accounts for less than a quarter of GDP. But more than 70% of Indians live in the countryside. This year's rains have so far been patchy, but overall about 5% heavier than the long-term average. This has encouraged most economists to nudge their predictions upwards, to an annual GDP growth rate of about 7%.

Already, the economic data looked rosy. In June, industrial production climbed at its fastest rate in nine years: by 11.7% compared with the same month in 2004, including an increase in manufacturing of 12.5%. The same month, exports were up by 19% on the previous year, and imports by 30%. Businesses have rarely been so confident. A survey of smaller enterprises published this week by the Confederation of Indian Industry found that 93% expected to invest more in capital expenditure in the coming year than in the one just past.

This is the sort of cyclical upturn that led India's previous government to boast “India is shining”,

call an early election, and lose it. Now, as then, there are some worrying numbers, too. An “infrastructure index” produced by the government showed hardly any growth in July. Production of coal, crude oil and electricity actually declined. Shortages of electricity and bottlenecks in transport will be big constraints on India's future rate of growth.

Also alarming some economists is the government's inability to pursue any additional liberalising economic reforms. The ruling coalition, led by the Congress party, relies for its parliamentary majority on support from a group of Communist parties that oppose many reforms. This month they forced the government formally to abandon plans to sell stakes in 13 state-owned companies to strategic investors. It even had to drop its attempt to sell on the stockmarket a 10% stake in Bharat Heavy Electricals, a government-owned power-equipment maker.

Besides any other benefits privatisation may bring, the government will miss the lost revenue as it struggles to restrain its budget deficit. Budgetary concerns led many economists to decry a reform the government has pushed through—with support from across the political spectrum. This week, parliament passed a law that guarantees 100 days a year of employment on public-works projects to a member of every household in 200 of India's 600 districts, a scheme that is to be extended to all of the other districts within five years.

For its promoters, such as Sonia Gandhi, leader of the Congress party, the employment guarantee is nothing less than a visionary scheme that will drastically reduce poverty, help fix rural India's rotten infrastructure and change age-old social structures by giving power and rights to the very poor. For its critics, the scheme is yet another way of pouring unmeasured pots of good money after bad, into a bottomless pit where ghost workers dig and corrupt officials thrive. But critics and champions alike can agree that it is a vote-winner.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

Bangladesh

All over the place

Aug 25th 2005 | DELHI
From The Economist print edition

Serial bombings, with worse to come

Get article background

AFP

Not very deadly, this time

MANY terrorist outrages have been far bloodier. But few have been co-ordinated on such a vast scale as the bomb blasts that peppered Bangladesh on August 17th. They will further tarnish Bangladesh's already battered reputation as a secular Muslim democracy. The blame game that has ensued shows how Bangladesh's potential as a hotbed of Islamic extremism is rooted in the debasement and violence of mainstream politics.

Nearly 500 bombs went off, in 63 out of the country's 64 districts, all within about an hour of each other. Targets included government buildings, courts and press clubs. The bombs were no more than detonators, without explosive charges. Only two people were killed, and about 140 injured. So it seemed more a show of strength than an attempt at mass murder.

Within a week of the bombings, more than 170 out of 500 suspects sought by the police had been detained. Their confessions reportedly confirmed the involvement of a group known as Jamaat-ul-Mujahideen. Leaflets from the group, demanding the introduction of Islamic law, had been left at many of the bomb sites. Nine out of ten of Bangladesh's 140m people are Muslims, but the country has prided itself on its tolerant traditions. Jamaat-ul-Mujahideen was one of two extremist groups the government banned in February, having earlier denied their very existence. On August 23rd, its website threatened new attacks.

Even now, the government led by the Bangladesh National Party (BNP) of Khaleda Zia, the prime minister, plays down the extremist threat. Moudud Ahmed, the law minister, said it was inconceivable that the militant group could have organised the blasts alone. Some senior BNP members openly blamed the main opposition party, the Awami League.

The League in turn accused the government of complicity. Such an onslaught, said the League's Kazi Zafarullah, needed its “active connivance and support”. Why should a government do such a thing? He claimed that the ruling party wanted to distract attention from rising prices, a spate of extra-judicial killings and an opposition campaign for political reform ahead of elections that must be held by early 2007.

In truth, both the BNP and the League are guilty of using political violence, which killed more than 500 people last year. Two Islamic parties are junior partners in the BNP-led coalition. Motiur Rahman Nizami, the industry minister, from the larger of the two, Jamaat-e-Islami, hardly helped his party's international standing by accusing India of involvement in last week's blasts. India

accuses Bangladesh of harbouring secessionist groups from its restive North-East. It has also been fretting about a perceived “Talibanisation” of Bangladeshi society and politics.

“If they try for 100 years, they will not turn Bangladesh into a Taliban state,” says the BNP's Mr Ahmed, pointing out that both prime minister and leader of the opposition are women. He is right that the country seems far from becoming a hardline Islamic state. But, as in Pakistan, secular rulers have increasingly turned to Islamist groups to tighten their grip on power. Also as in Pakistan, it is not always clear who is using whom.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

Papua New Guinea

Thirty years on

Aug 25th 2005 | SYDNEY
From The Economist print edition

Australia and its former colony are on edgy terms

WHEN Sir Michael Somare, Papua New Guinea's prime minister, landed in Australia last March, officials at Brisbane airport asked him to take off his shoes for a security check. Understandably, the man widely regarded as PNG's founding father was affronted. He demanded an apology; Australia refused. The spat reflected old tensions between the two neighbours as PNG approaches the 30th anniversary of independence from Australia next month.

Two months after Sir Michael's shoe problems, Australia's biggest aid project for PNG since independence came badly unstuck. The A$1 billion ($760m) enhanced co-operation programme (ECP) had been hailed in Canberra as a solution to PNG's two biggest problems: lawlessness and corruption. It involved sending about 200 Australian police to Port Moresby, the capital, and regional towns where crime is rife, and installing 43 Australian officials inside PNG's bureaucracy.

From Canberra's viewpoint, the plan made economic sense. Australia has given PNG A$10 billion-worth of aid since independence. As PNG's biggest donor, Australia had become frustrated at the way it has been siphoned off through systematic corruption. To some in PNG, though, the plan smacked of a bid by Canberra to take back control of the country. The first 120 policemen in the Australian contingent had been there only four months when PNG's supreme court ruled in May that the Australians' deployment violated PNG's constitution, largely because of indemnities they had been given from legal prosecution. The policemen promptly left.

Alexander Downer, Australia's foreign minister, visited Port Moresby on August 24th to salvage something from the wreckage of the original scheme. About 30 Australian policemen will now be sent back to help train PNG police and to tackle corruption within the police force. Mr Downer called the remodelled ECP, without police on the beat, “second-best”.

A recent analysis by the Centre for Independent Studies, a Sydney think-tank, paints a bleak picture of the ECP's predicament. It reckons that 85% of the PNG population are among the world's poorest people. The rest, a rich, educated elite, live in barbed-wire compounds to protect themselves from *raskols* or gangs, when they are not travelling abroad.

Sir Michael says he would like to sever PNG's “umbilical cord” with Australia and look for friends elsewhere in the region. New friends up to now, such as Malaysia, have done well from logging PNG's forests and extracting its copper, gold and oil. Most of the poor country's 5.5m people are no better off for it.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD ASIA

Japan's election

Out with the old guard?

Aug 25th 2005 | TOKYO
From The Economist print edition

A colourful internet businessman challenges a fierce conservative

AP

Horie: Livedoor's live wire

ONE of the novel things about Japan's looming election is that it is easy to tell many of the candidates apart this time. Nobody in Hiroshima, for example, will confuse Shizuka Kamei with Takafumi Horie. The 68-year-old Mr Kamei is a conservative stalwart who loathes Junichiro Koizumi and voted against the prime minister's plan to privatise the post office and its related financial services. For his defiance, Mr Kamei has been kicked out of the ruling Liberal Democratic Party (LDP) and has formed a tiny group of rejectionists, the People's New Party, to contest the snap election that Mr Koizumi has called for September 11th. By contrast, his opponent, the 32-year-old Mr Horie, is an internet businessman who has promoted himself as an attacker of the status quo.

Style alone helps to set the two apart. Mr Kamei's traditional look—dull suit and huge spectacles—is flexible enough to complement all three of his standard facial expressions: sour, sullen and sombre. The spiky-haired Mr Horie prefers T-shirts, and his favourite accessory is an internet-enabled mobile phone.

The two candidates also differ on issues. Mr Kamei—a former LDP policy chief, who headed his own party faction and who twice challenged Mr Koizumi for the party's leadership—has repeatedly denounced the prime minister's "structural reform" agenda. He argues that cuts in public-works spending and efforts to promote market competition are destroying the country's traditional fabric, and fears a Japan in which "the strong gnaw on the bones of the weak".

Mr Kamei is therefore vehemently opposed to the prime minister's plan to privatise Japan Post over the next 12 years. Japan's 25,000-branch post-office network doubles as a savings bank and life insurer, and holds ¥330 trillion ($3 trillion) in assets. Mr Koizumi wants to liberalise Japan Post and shrink the state's influence. Mr Horie agrees with the prime minister.

Indeed, Mr Horie's internet company, Livedoor, is easy to contrast with the venerable economic model that Japan Post represents. The post office champions snail mail; Mr Horie's customers use e-mail. The post office built brick-and-mortar branches to help consolidate the Japanese islands; Livedoor and others are using the internet to decentralise decisions. And whereas the post office's huge state-run bank promotes financial isolationism and conservatism, Livedoor has got help from one of the big foreign investment banks that are changing Japan.

So Mr Koizumi is naturally pleased that Livedoor's boss will run against Mr Kamei in the Hiroshima constituency, even if Mr Horie is officially an independent. The prime minister has made post-office privatisation the main theme of the LDP's campaign. Although he will face a tough fight against the biggest opposition party, the Democratic Party of Japan, he is also keen to defeat members of

his own party who voted against the privatisation bills this summer (and from whom the LDP has withdrawn national support).

Mr Koizumi has assembled a posse of high-profile candidates—including many prominent women—to pursue the 32 LDP rebels in the campaign (four others have retired, and one is running on another splinter party's proportional list). Overall, the LDP and its coalition partner, New Komeito, will run candidates who support postal privatisation in 299 of Japan's 300 single-seat districts. They will leave number 300 to Mr Horie.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Afghanistan

Lions at bay

Aug 25th 2005 | BAZARAK
From The Economist print edition

The victors against the Russians and the Taliban are now losers

Get article background

THE fields and rivers of the Panjshir Valley are still littered with the rusting remains of Russian tanks, reminders that this was the heartland of the anti-Soviet *jihad* of the 1980s. Ahead of Afghanistan's first fully democratic parliamentary elections on September 18th, the gun turrets have become improvised billboards for campaign posters. But enthusiasm for what Panjshiris hope will be a big transfer of power from Kabul is tempered, as it is across the whole Afghan north, by anxiety. It is an inescapable fact that since the Panjshiri-led Northern Alliance entered Kabul in 2001, with American B-52s circling overhead, the focus of political power has shifted inexorably away from the north.

There have been no bigger losers than the Panjshiris, and they are deeply aggrieved. In the villages strung along the valley there is a feeling that not merely have the sacrifices of the *jihad* and the defeat of the Taliban been forgotten by western countries they thought were their allies, but that somehow the Panjshiris themselves have come to be recast as the villains of the piece. “We are the people who defeated the Soviets. We are the *mujahideen* who fought the Taliban and al-Qaeda. Now the world community has forgotten this and we are called gunslingers, warlords, *mujahideen* criminals,” says Haji Tajuddin, father-in-law of the late Ahmed Shah Masoud. The greatest of the Panjshiri commanders, Masoud was killed by al-Qaeda suicide-terrorists two days before the September 11th attacks on New York.

Masoud's successors, men such as Yunus Qanuni and Muhammad Fahim, have indeed been cast as warlords and systematically sidelined. So too have the Uzbek leader, General Rashid Dostum, and Herat's self-styled potentate, Ismail Khan, and not without reason. Mr Dostum and Mr Qanuni, however, both boast considerable democratic credibility after standing in last year's presidential election. Many Panjshiris still claim that the ballot was rigged against Mr Qanuni.

It is a far cry from the heady days of late 2001 when all were Northern Alliance leaders and key allies of the American-led coalition. The Tajik centres of power in the interior, education and defence ministries as well as the intelligence service and the police have all been steadily eroded. Abdullah Abdullah, the foreign minister, is the last Panjshiri leader to retain high office.

To add insult to injury, Panjshiris think the government of President Hamid Karzai has been taken over by the very people they defeated in 2001: the Pushtuns. As Tajik influence has waned so the majority ethnic group (around 48%), the historically dominant force in Afghan politics from which the Taliban was overwhelmingly drawn, has made a comeback. Pushtuns now occupy a majority of the key government posts, a situation many western diplomats regard as a prerequisite to long-term stability in the country.

The Karzai government has pursued a policy of rapprochement with those Taliban who are prepared to lay down their arms, and a number of former Taliban leaders will be elected in the parliamentary elections. Panjshir was recently appeased with the status of a province, but there is widespread dismay that it will have only two seats in the parliament.

Though it is close to Kabul and security is good, Panjshir has yet to see significant reconstruction. The only road is still a bone-jarring unsurfaced track. The governor, Haji Bahlol Khan, is working to establish a base for American military engineers to begin work, but the prospect of foreign troops in the valley provokes mixed feelings. The UN disarmament programme aimed at stripping the country of 25 years' worth of accumulated weaponry has met fierce resistance. Living with the daily reminders of their past military struggles, Panjshiris remain far from convinced that the peace they have enjoyed since 2001 will last.

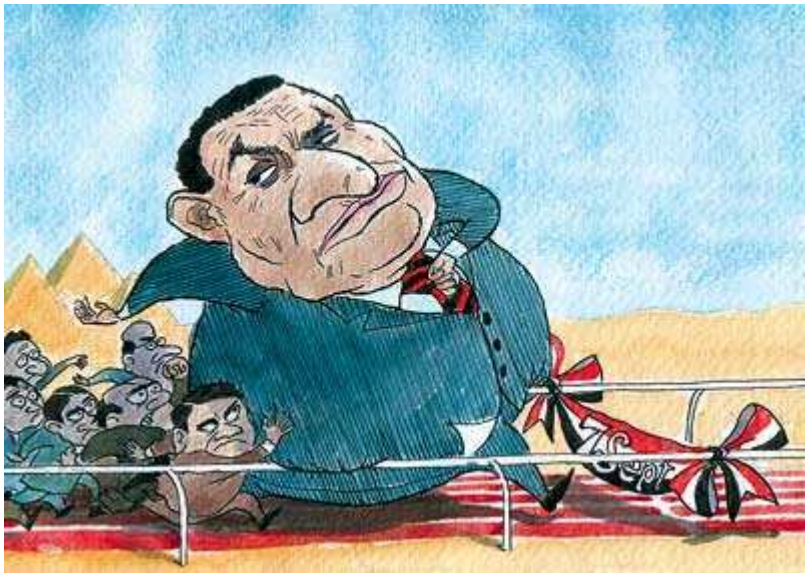
The enmities that underpinned and were exacerbated by the civil war remain close to the surface. And across the north it is clear that though the chance for democracy is welcomed, real doubts remain about the intentions of the Karzai government and international community, and the long-term prospects for peace. “The whole *mujahideen* are coming together,” says Haji Salahuddin, the emir of Bazarak, the provincial capital. “We don't want to fight but if someone fights us, we will.”

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Egypt's presidential election

Chronicle of a result foretold

Aug 25th 2005 | CAIRO
From The Economist print edition



President Hosni Mubarak has it all sewn up, but at least the germ of genuine competition is in the air

Get article background

ONE thing everyone knows about Egypt's first-ever presidential election, due on September 7th, is who is going to win. Hosni Mubarak has held the top job for four terms already, and, barring divine intervention, is set to keep it for six more years. The reason, suggests a buffoon in a play recently staged in Cairo, may be that Egypt's politics is rather like a football tournament: “If a team wins it three seasons running, they keep the trophy in their clubhouse forever, right?”

It is not quite that simple, though it used to be. Until Mr Mubarak himself decreed a change of rules earlier this year, no one actually competed for the post. Egypt's parliament chose a single “candidate”, always the incumbent, who was confirmed in a referendum. These polls were usually like the one held in May to approve the constitutional amendment which now allows for contested presidential elections. The government claimed an 83% turnout, and passage by a margin of 54%, whereas the judges' union, which oversaw some of the voting, reckoned that fewer than a tenth of voters bothered to turn up.

Egyptians may have abstained from voting because they are so used to seeing the figures fiddled. Many also disliked the new law's conditions for presidential candidature. Each legal party can propose a candidate, but only parties vetted by a state-controlled committee are legal. This excludes the Muslim Brotherhood, Egypt's best-organised opposition group. Independents can run, too, but only after securing 250 endorsements from elected officials, nearly all of whom, currently, belong to the ruling party.

Despite these hurdles, and despite a boycott by leftist parties and the budding Kifaya (Enough!) movement, which stages regular protests against the regime, Mr Mubarak is facing rivals. A quasi-independent electoral board has approved nine, rejecting 29 others because they failed to earn the necessary endorsements, or because their parties put up more than one candidate. Of the survivors, only two are remotely credible.

A daring duo

One challenger is Noman Gomaa, who heads the liberal Wafd party. Egypt's leading political force before the 1952 revolution, the Wafd now holds only four out of 454 parliamentary seats. Mr Gomaa says he would cancel arbitrary laws and free both civil society and the economy from state control. His simple slogan, which translates roughly as “We're Fed Up!”, has struck a strong popular chord. But the 70-year-old lawyer lacks charisma. And critics accuse him of betraying a threatened wider opposition boycott, insinuating that his party has cut a deal to get more seats in November's general election.

The other credible candidate is Ayman Nour, who split from the Wafd to form his own Ghad (Tomorrow) party. A feisty member of parliament, the 40-year-old Mr Nour was jailed earlier this year on what appears to be a flimsy charge that he forged papers to secure Ghad's legalisation. Hitherto little known beyond his own Cairo constituency, Mr Nour has gained much sympathy for this and subsequent travails. His platform calls for a period of transition to strip away barriers to real democracy, followed by elections under a fully revised constitution.

Mr Gomaa and Mr Nour face a struggle. Fifty years of populist, one-man rule have turned Egyptian politics into a remote pageant, where the few who participate tend to be mobilised by the state itself. The names of Mr Mubarak's challengers are not well known to Egypt's 42m eligible voters, of whom two out of three are poor, one out of three is illiterate and at least one out of four has not registered to vote. Some of the latter missed the legal period for registration, which ended months ago, before it was clear that there would be an open contest. Yet the real number of registered voters is likely to be smaller still than the figure the government claims. Voter rolls are famously messy, and among the scores of Egyptians questioned by this correspondent, only a handful have ever registered.

The 77-year-old Mr Mubarak is himself campaigning vigorously, hiring professional promoters, stumping through the provinces, and granting the country's 6m civil servants a hefty pay rise. He has also pledged sweeping reforms, including devolving some of his own powers and scrapping the hated emergency laws enforced throughout his 24-year tenure. Mr Mubarak's handlers proudly claim scrupulousness in using only party funds and facilities, not the state's. And the state-owned media remains lush with praise for Egypt's progress under Mr Mubarak's guidance. This prompted one opposition cartoonist to jibe at the sudden “opening” of extant hospitals, power plants and rural sewerage projects. Soon, he jokes, the ruling National Democratic Party will claim the pyramids as one of its achievements.

Still, the election has pumped vitality into Egypt's moribund politics. The opposition press is notably more daring, though the president rebuffed calls for televised debates. Opinion polling, long banned in Egypt, has been licensed. Several independent groups plan to monitor the voting, though they have yet to win legal sanction. The election may not be the real thing yet, but it's a pretty good show.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

The status of Gaza

Now who takes the blame?

Aug 25th 2005 | JERUSALEM
From The Economist print edition

The puzzle of Gaza's new legal status

THE United Nations has not decided. The Red Cross won't say. The World Bank is staying neutral. And, of course, the Israelis and the Palestinians disagree. But with Israel's “disengagement” from the Gaza strip proceeding apace—the settlements were evacuated in less than a week and the army, having quickly yet peacefully removed hundreds of hardcore protesters in the last two West Bank settlements this week, is expected to finish clearing out its installations from Gaza by mid-September—the question now looms: will Gaza still be “occupied territory”?

Ra'anan Gissin, the Israeli prime minister's chief foreign press spokesman, is categorical: “We are abolishing the military rule; that means we will have no responsibility whatsoever over anything that happens in Gaza under international law.” On the contrary, says a Palestinian Liberation Organisation (PLO) statement: Israel “will remain an occupying power under international law” because it will still control Gaza's borders, coast and airspace, provide the electricity and water, and—as the disengagement plan spells out—reserve the right to use military force, “both preventive and reactive”, against attacks from Gaza. The Palestinians also argue that under the 1993 Oslo accords, Gaza and the West Bank are one unit, so either all of it is “occupied” or none of it is.

The reality, however, is more complex, as officials on both sides will quietly acknowledge. International law sets, broadly speaking, two standards for calling a territory “occupied”. The basic one, in the 1907 Hague Regulations, is effective military control by another power. The Fourth Geneva Convention (1949) also lays down what the occupier must do for the occupied, such as

providing basic services (water, education, health), giving aid agencies free access, and—the most egregious of Israel's violations—not settling its own citizens there. Israel's governments have long argued that the Geneva Convention does not apply to the West Bank and Gaza, essentially because they were not signatories to the convention when it took them over from Jordanian and Egyptian control in 1967. Nonetheless, Israeli courts have often stated that the convention does apply, and in practice Israel has always said it would abide by its obligations, without specifying which ones.

But the Geneva Convention does, as the PLO concedes, "contemplate changes in the *degree of occupation*" (original italics). If handing over the main tasks of governance to the Palestinian Authority means that the Geneva Convention no longer applies to those tasks, then Israel could—as it says it will—continue providing services and letting in aid, but treat that as a mutual agreement instead of an obligation, and thus claim the right to restrict them if it sees fit. And if the Hague standard ("effective military control") stops applying too, then Israel will no longer be responsible for security in Gaza. It might then try to justify harsher retaliation against terrorist attacks as self-defence against aggression from "foreign territory". Some Israeli officials have indeed argued that with the settlements gone, the army, with no need to protect them, will be able to strike harder in Gaza.

The trouble is, international law never imagined anywhere like this—a place neither fully occupied nor completely sovereign. Neutral observers are largely undecided. The International Committee of the Red Cross, whose remit to work in the territories depends on whether they count as occupied, says that Gaza's status will depend on "evolving facts on the ground". There have been a few studies by legal scholars, the upshot of which is the same. Daniel Taub, a lawyer at Israel's foreign ministry, takes a softer line than Mr Gissin: "To the extent that there are responsibilities we haven't yet transferred, we have to be accountable for these, just as the Palestinian side has to be accountable for the responsibilities it's received."

This week Israel and Egypt finalised a deal on letting Egyptian troops control the Egypt-Gaza border, which will help Israel's claim that it is giving up "effective military control". But the highest arbiter, the UN, will only pass judgement—if ever—when things are much clearer. Until then, argues Geoffrey Aronson of Canada's International Development Research Centre, much will depend on what stance other countries and foreign donors take. They should, he recommends, "chart a unified position" both on what would constitute the end of occupation and what Israel's remaining humanitarian responsibilities would be—or Israel will be able to set its own terms. That was written in January. Time's up.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD AFRICA & MIDDLE EAST

Burundi and Rwanda

Two paths out of hatred

Aug 25th 2005 | BUJUMBURA AND KIGALI
From The Economist print edition

Is “tribe” a dirty word?

Reuters

The new face of Burundi

PIERRE NKURUNZIZA is a born-again Christian, a former sports lecturer and, on August 26th, was due to be sworn in as president of Burundi. That the election which brought him to power—Burundi's first since 1993—ended peacefully was a surprise to many. But now Mr Nkurunziza faces the more daunting challenge of rebuilding a country torn apart by a civil war that pitted his Hutu rebels against a Tutsi army, and killed 300,000 people, most of them Hutu.

No country will be paying closer attention to his progress than neighbouring Rwanda, which is riven by the same ethnic fault line between a large Hutu majority and a Tutsi minority. In 1994 Hutu militias there murdered about 800,000 Tutsis. Yet in recent years the two tiny countries have tried completely opposite ways to bring an end to their ethnic feuding.

In Rwanda, politicians cannot even mention tribe. “There is no ethnicity here; we are all Rwandan,” declares President Paul Kagame. In the context of central Africa's tribal wars, which have invariably been stoked by rabble-rousing politicians, this shows understandable delicacy. It can also be absurd: earlier this year, for example, the government banned a pygmy-rights group on the grounds that it was inciting ethnic hatred. Outlawing “ethnic divisionism” is also a handy way to gag critics. In June last year, the country's parliament, which is tightly controlled by Mr Kagame's ruling Rwandan Patriotic Front party, used it to ban the last independent human-rights organisation. The leading opposition party had been banned on similar grounds the previous year.

Attitudes could not be more different across the country's southern border, in Burundi. In the bars of Bujumbura, a pleasant capital city on Lake Tanganyika's shore, drinkers debate topics such as ethnicity and politics loudly over their beers. Mr Nkurunziza, the son of a Hutu father and a Tutsi mother, will lead a government in which ethnic quotas are entrenched in the constitution—60% of posts in the National Assembly and the executive must be filled by the previously long-oppressed Hutus, while top jobs in the army and the Senate are to be equally divided between the two groups.

Quotas aside, and outside the bars, few Burundians seem to take ethnicity too seriously. As the recent elections approached, dozens of Tutsi politicians bailed out from the leading Tutsi party and joined Mr Nkrurunziza's Forces for the Defence of Democracy party (FDD). Some were even more shameless. When election posters went up in Bujumbura several months ago, people were astounded to see known Tutsi politicians masquerading as Hutus.

Given their differing approaches, one might expect some tension between Mr Nkurunziza and Mr

Kagame. The former, moreover, once led a radical Hutu rebel group that specialised in killing Tutsis; the latter once led a Tutsi rebel army that routed a racist Hutu regime. But Mr Kagame is already on bad terms with several neighbours—the Democratic Republic of Congo, Uganda and Tanzania—and can ill afford another enemy. So he was quick to congratulate Mr Nkurunziza on his election victory, and promised to attend his swearing-in. It will be Mr Kagame's first visit to Burundi since 1995.

Some Burundians worry that this new friendship may be a portent of change in their own government's policies. Mr Nkurunziza has long indicated that he wants to get rid of the ethnic quotas in the constitution. Others in his regime, notably the party leader, Hussein Rajabu, seem eager to copy Mr Kagame's authoritarian tactics. At a recent FDD victory rally, Mr Rajabu slit a cockerel's throat and let an eagle feed on its entrails. This would be a harmless spectacle but for the fact that the eagle and the cock are also the respective mascots of the FDD and its main competitor, FRODEBU. These are risky gestures for a country just emerging from civil war. Tutsi politicians fear that if the new regime does abolish the quotas, non-ethnic rule will just be another name for Hutu domination.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Côte D'Ivoire

A general emerges from hiding

Aug 25th 2005 | ABIDJAN
From The Economist print edition

There may be a coup before elections in the divided nation

Get article background

GENERAL Mathias Doué thinks he knows why Côte d'Ivoire is in a mess, and the renegade former head of the armed forces apparently intends to do something about it. The country, previously regarded as one of the most stable in West Africa, has been split by civil war since 2002. “The departure of President Laurent Gbagbo is the sole condition for a return to peace in Côte d'Ivoire,” General Doué said in a radio interview on August 20th. “If the international community will not do it softly, I will do it myself by any means necessary.”

Sadly, Côte d'Ivoire knows all about coups—even if none of them has been so brazenly threatened in advance. There have been several attempts, both successful and unsuccessful, in recent years. Mr Gbagbo came to power only after elections that he himself described as “calamitous”, and his term in office has been little better. A group of northern soldiers attempted to oust him in September 2002. They failed, but rapidly reconstituted themselves into the New Forces and grabbed the north of the country. It was only the intervention of troops from France, the former colonial power, that stopped their descent on the main city, Abidjan. Since then the country has seen an uneasy stalemate between the two sides.

Is General Doué likely to change that by sweeping President Gbagbo away? Previously head of the armed forces, the general was sacked after he presided over the president's most recent military attempt to dislodge the New Forces rebels, in November last year. In hiding since then, he now claims that the presidential clan is intent on a return to war, and needs to be removed if the country is to enjoy stability. His threats have sparked a frenzied response by those close to the president. Members of the ruling Ivorian Popular Front party have lined up either to accuse General Doué of high treason, or to taunt him for lacking the courage to match his words with deeds.

Still, at least one foreign diplomat in Abidjan says that the general, having been a popular leader of the army for four years, is still talked about by soldiers, and poses a credible threat. General Doué has also worried the United Nations, which, together with the French, has more than 10,000 troops trying to keep the peace in Côte d'Ivoire. The UN head of mission, Pierre Schori, firmly condemned the general's words.

If Côte d'Ivoire is in such a panic, it is in part because it has become apparent that presidential elections, once seen as the way out of the crisis and scheduled for the end of October, will not happen. Although the UN claims to be optimistic, the list of obstacles is formidable. Electoral lists, due to be published three months before the polls, are not even close to being drawn up. The New Forces still control the north, and say they will not lay down their weapons until several legal reforms aimed at righting apparent injustices towards northerners are made to their satisfaction. The rebels also complain that the numerous militias which support the president have repeatedly refused to disband.

Besides, all sides show a lack of willingness to go to the polls. “President Gbagbo knows he cannot win free and fair elections,” says that diplomat. “He is doing everything he can to provoke the rebels, and they keep falling into his trap.” And the New Forces, whose leaders have gained power and wealth beyond any previous expectation, must wonder whether it is in their interest to give it all up.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Eastern Europe's communist past

History lessons, passed and failed

Aug 25th 2005 | WARSAW
From The Economist print edition

AP

Remembering, and rewriting, the past

AUGUST, in eastern Europe, means anniversaries: the Molotov-Ribbentrop pact of 1939 that divided the region into Nazi and Soviet spheres of influence; the building of the Berlin Wall in 1961; the Soviet-led invasion of 1968 that crushed Czechoslovakia's Prague Spring; the birth in 1980 of Solidarity, the Polish trade union which dealt a death-blow to communism; and the Soviet coup of 1991, where hardliners locked up Mikhail Gorbachev to preserve the Soviet Union, but ended up giving Boris Yeltsin the power to destroy it.

Anniversaries matter in this part of the world, partly because the events they commemorate shaped so dramatically the way countries are today, partly because for so many years discussing those events honestly was illegal and dangerous. In today's post-communist era, myth and truth are tussling as history is again being shaped by politics. Some anniversaries are being recast to multiply the heroes and reduce the villains; others, because of disappointment or embarrassment, are being downplayed or whitewashed. The history of eastern Europe is messy, and even seemingly joyous events leave a bitter aftertaste.

That is particularly true in Russia, where nostalgia is growing not just for the Soviet Union but for some of its least attractive defenders. A new opinion poll shows for the first time that significantly more Russians sympathise with the hardliners who plotted the August coup than with the self-professed democrats who foiled it. That might seem surprising, given that the coup leaders were a dreary lot, visibly drunk on their only public appearance, and with only the haziest idea of how to

keep the Soviet Union together. But the lead from the top makes it more understandable: Vladimir Putin, Russia's president, described the Soviet Union's demise as the “geopolitical catastrophe of the century”. The collapse of the coup is still a public holiday—the anodyne-sounding “Flag Day”—but it is marked in only the most low-key way.

In Poland too, polls show public disillusion with the champions of the struggle for democracy, in this case Solidarity. That reflects a general national pessimism (see article). But among politicians, the union enjoys a remarkable, almost universal popularity. That is in sharp contrast to its heyday, when it was bitterly resisted by Poland's then communist leaders, and finally suppressed by the imposition of martial law. At celebrations to mark the movement's 25th anniversary in Naklo, an unremarkable but typical small town in northern Poland, the day kicked off with a mass, featuring a rousing anti-communist sermon on the theme of trust, followed by a parade to lay wreaths at the war memorial. Among the wreathlayers were representatives of the former communist party, the Democratic Left Alliance (SLD).

This marks a striking shift. In past years the ex-communists have reviled politicians associated with Solidarity, such as Lech Walesa, Poland's president from 1990-95. With some justice, the ex-communists portrayed them as incompetent and squabbling, and attacked their record, particularly on social policy. Now the SLD has made a clever switch, claiming that it is the real heir to Solidarity, on the grounds that the movement's still unfulfilled social demands, on pensions, housing and workers' rights, are best pursued by leftists.

Unhappy birthday to them

East European anniversaries, upcoming

Year	Country	Event	Significance	Upbeat version	Cynical version
2006	Hungary	Uprising crushed by Soviet forces, October 1956	Thousands dead, hundreds of thousands of refugees	Wicked Soviets acted alone	Many locals collaborated
2007	Romania, Bulgaria	Communist seizure of power, 1947	Decades of dictatorship, isolation, backwardness	Wicked Soviets acted alone	Many locals collaborated
2008	Czechoslovakia*, Poland, Hungary	Communist seizure of power, 1948	Decades of dictatorship, isolation, backwardness	Wicked Soviets acted alone	Many locals collaborated
2008	Czechoslovakia*	Soviet-led invasion August, 1968	Debatable: Dozens killed, thousands of refugees	Heroic Czechs and Slovaks crushed by wicked Soviets	One lot of communists attacked by another
2009	Central Europe and Balkans	Toppling of communism, 1989	Freedom, democracy, capitalism	Triumph of people power	Elites switched sides, poor lost out
2009	All	Molotov-Ribbentrop pact, August 1939	Division into Nazi and Soviet spheres	Wicked external aggression	Clumsy diplomacy made things worse
2010	Poland	Solidarity founded, August 1980	Debatable: Rattled communists	Saintly, brilliant, universal, triumphant	Muddled, impractical, failure
2011	Soviet Union	Collapse, 1991	Independence for Balts, Soviet republics and Russia	Triumph of democracy and freedom	Same elites often stayed in charge

Source: *The Economist*

*Czech Republic and Slovakia since 1993

That leaves Solidarity activists spluttering at the ex-communists' cheek. Didn't the communist party once endorse the foulest means to smother Solidarity at birth? The SLD's smooth young leader, Wojciech Olejniczak, brushes that aside. He was only six years old then, he says.

In the Czech Republic, the standard version of the 1968 events is under increasing scrutiny. Although the idea of a wonderful political experiment—“socialism with a human face”—being crushed by tanks was glorified by writers such as Milan Kundera, other Czechs, including the former president, Vaclav Havel, are more sceptical. One newspaper this week said 1968 had not been a “star moment” but a “blind alley”. It is not just that it failed. Some of the leading reform-communist figures in the Prague Spring had a most unsavoury history as enthusiastic Stalinists. And it was hardly a triumph of bravery. After some brief heroics during the invasion, Czechs showed little appetite for Polish-style resistance in the years that followed.

Some Czechs now want attention turned to the even more divisive question of the communist seizure of power in 1948. The “normalisation” after 1968, says Jiri Hanak, who writes for the (former communist) daily, *Pravo*, resulted in the “breaking of people's character, intimidation, humiliation and spiritual disgrace”. But the events of 1948 were far worse: “hundreds of political executions, the extermination of private farmers and of entrepreneurial spirit, an attack against culture and Czechoslovakia's complete transformation into a satellite of the Soviet Union.” Although the communist putsch of 1948 was illegal, the party enjoyed widespread support, and there was no shortage of collaborators in the subsequent decades.

Tweaking myths to make them more appealing creates results that do not fit together. Inside the European Union, such differences can be finessed. Germany still regards the expulsion of 10m people from the former Sudetenland in Czechoslovakia, East Prussia and Silesia in the years following the second world war as an unjust and brutal act. The central European countries mostly see it differently. The argument fizzles, and occasionally flares, but does not spoil relations. As Germany has long since stopped expecting compensation or apology, it doesn't matter that only a handful of east European politicians think the matter worth discussing.

Outside the EU, particularly with Russia, the rows are worse—and set to get bigger. A foretaste came during the recent celebrations in Moscow to mark the defeat of the Nazis. Many east Europeans felt these were hijacked by a triumphalist Soviet version of history that airbrushed Stalin's crimes from the picture. Russians saw that as quibbling. The coming years will provide many opportunities for more such exchanges (see table above), but over events where Russia's position will be harder to justify. The Kremlin line is that there have already been quite enough apologies for the misdeeds of the Soviet Union. The rest of the former empire thinks they have hardly started.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Portugal's fires

Burning to build

Aug 25th 2005 | ATHENS, MADRID AND LISBON
From The Economist print edition

The threat to southern Europe's trees

Reuters

Wood v concrete

"TO YOUR right, you can see Portugal burning." On a flight leaving Lisbon this week, passengers heard that gloomy advice as they gazed down at the smoke billowing up from pine and eucalyptus trees.

From space, the images are even more dramatic: giant plumes, swirling over the Atlantic, and black scars where forest used to be. On the ground, about 4,000 exhausted fire fighters are battling blazes that have been breaking out at an average rate of more than 400 a day since August 13th. So far this year, Portugal's fires have claimed the lives of 15 people, 11 of them firemen, and ruined many livelihoods.

Fires have already burnt close to 180,000 hectares (444,800 acres) of forest this summer in what is expected to be the second-heaviest annual toll since records began 25 years ago. Aggravated by the country's worst drought in more than 60 years, they come only two years after politicians promised to end the fires that killed 18 people and destroyed almost 426,000 hectares of forest during the heat wave that hit southern Europe in 2003.

Returning from holiday, rather tardily, to a country in flames, the Socialist prime minister José Sócrates took flak for his inadequate response to the crisis. "Our task now is to put out the fires," Mr Sócrates retorted this week, visiting Coimbra in the heart of one afflicted region. "Then we will look at the structural causes." One of the first questions he must answer is why more forest burns in Portugal than in comparable southern European states like Spain, France, Italy and Greece.

Equipment is clearly lacking. The number of fire-fighting planes and helicopters has increased from 38 last year to 49. But Portugal owns none of the Canadair aircraft which are most useful against forest fires. Greece has 23 and Italy 16.

Unfortunately, comparisons with other southern European countries do not end there. Across the region, the share of land covered by forest is shrinking, while the proportion shrouded in concrete is increasing. In all south European states, arson plays some part in accelerating that process—but just how big a part?

As Portugal burns, conspiracy theories abound. The culprits are variously identified as pyromaniacs, as people venting grievances against forest owners, as people with a commercial stake in the fire-fighting business, or (most plausibly) as land speculators. One bizarre theory says Portugal is being punished for sending a small military unit to Iraq. Anybody who sees this year's

drought as the main factor is just naive—such is the popular verdict.

Whatever the causes, the number of fires could be reduced if Portugal's 40,000 small-forest owners met their responsibilities to clear underbrush and cut fire breaks. Blazes rarely break out in forests managed by big pulp and paper companies. However, in the absence of a central land registry, authorities find it hard to call to book the owners of small woods.

All these challenges—whether criminal or merely practical—sound familiar to other south European countries afflicted by summer conflagrations, water shortages and hunger for building land.

In Spain, whose building boom shows no sign of slackening, people blame construction itself for gobbling up the water supply—and creating irresistible temptations for speculators. *El País*, a leftish daily, recently blamed “destructive construction”—and the practice of arson in supposedly protected land—as a cause of irreparable damage to the Spanish landscape.

When would-be developers start fires, that can be hard to prove, especially when the culprits have powerful friends. But there are real suspicions in Spain that firefighters, whose pay can be linked to “productivity”, may sometimes be to blame. A district fire chief in Celanova in the Galicia region is one of several firemen arrested recently on suspicion of arson.

In Greece, this year's worst forest fires all broke out on the same day, near fast-growing suburbs east of Athens where olive groves give way to combustible coastal pine-forests. According to police, the fires seem to have been started deliberately, with a view to clearing land for building, a long-established practice around Greek towns and cities. In the countryside, shepherds are blamed for setting fires on windy days, in order to open up more grazing land. As livestock farming declines, big forest fires have become less frequent.

The pine-forests on the mountains around Athens make the city more attractive as well as helping absorb atmospheric pollution. But the temptation to burn them selectively, to make way for upmarket suburbs, remains strong. Few arsonists have been arrested.

The absence of a nationwide land registry encourages illegal building on state-owned land. The forestry service has a poor track record on replanting burned areas, as required by law. At best, only 25% of land damaged by fire is reforested.

The suburbs of both Athens and Madrid have seen speculative construction booms; though building regulations may be strict on paper, in each case local officials can be bribed to ignore them.

Costas Karamanlis, Greece's prime minister, has pledged to crack down on building in areas designated as forests. Greek newspapers published detailed aerial pictures of the fire-damaged areas after last month's blaze. If the next set of pictures shows construction—not rows of young pine trees—building contractors and local officials will face prosecution. Or so the authorities have promised.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE

Turkish tourism

How green is their valley

Aug 25th 2005 | CAMLIHEMSIN, TURKEY
From The Economist print edition

A remote hideaway could thrive on, or be wrecked by, eco-tourism

THEY used to be one of Turkey's best-kept tourist secrets: the scented plateaus of the Pontic mountains, with their wild flowers and exuberant dancers. For the handful of travellers who came this far east, few landscapes were as enticing as the Hemsin valleys in the province of Rize, a place where many locals speak a dialect close to Armenian, practise moderate Islam and are agnostic about their origins.

More recently, news of this area's beauty has been spreading. A new breed of eco-tourist, many of them from Israel, has begun to head for the *yaylas,* or meadows, with their roaring rivers and stone bridges. But the very attractions that draw in these green wanderers could be destroyed if clumsy developers and opportunistic local politicians get their way.

To see the aesthetic hazards of unregulated tourism, go no further than Ayder, a *yayla* overlooking one of the Hemsin valleys that was once renowned for its tranquillity and hot springs. Thanks to a stream of Turkish and foreign visitors, the air is thick with smoke rising from barbecues. Mournful Arabesque music blares from tour buses and cars. Garish motels and handicraft stands obscure the view.

Amberin Zaman

Many Hemsinlis are furious. Ayder's degeneration began after it was linked by road to the nearby town of Camlihemsin, says Selcuk Guney, a local activist. One of his aims is to ensure his birthplace, the neighbouring Firtina valley, avoids a similar fate. So far it is virtually untouched; that is partly because access is by dirt track.

Mr Guney insists that if the region's unique way of life is to be preserved, and well-managed eco-tourism is to flourish, the footpaths leading to *yaylas* must not be replaced with paved roads; and tour buses “that leave nothing but trash behind” must be restricted. Mustafa Orhan, a crusty old bee-keeper who led a successful campaign against a planned hydro-electric dam on the Firtina river, suspects that the government's unspoken aim in building roads is to help commercial logging. Locals have long used electric pulley-carts, running along steel cables, to bring food and other supplies to their *yayla* homes. So, instead of roads, Mr Orhan asks: “Why not build electric cable-cars to carry people?”

Locals of his persuasion have found an ally in Rize's governor, Enver Salihoglu; he too opposes further road construction in the valleys. Smart development could avoid ruining this Shangri-la, he believes. In Camlihemsin, for example, there could be more emphasis on bees, trout farming and organic tea. Of course, not every Hemsinli is so conservation-minded. “I want cable television and a fridge,” says Muazzez Yildiz, an elderly lady whose cottage has a gorgeous view of the Firtina valley. The question is how to help her without wrecking the place for those who will pay a premium for its virgin enchantments.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE

German politics

Liberals in the wilderness

Aug 25th 2005 | BERLIN
From The Economist print edition

German liberals have no natural home—least of all in the party claiming to be theirs

Get article background

HOW should liberty-loving Germans vote in next month's election? This is a hard question, whether your liberalism is of the economic kind, based on minimal state intervention, or of the social variety, reflecting an unconventional lifestyle. Four parties have a claim on liberals' sympathies. None of them—not even the self-professed liberals of the Free Democrats (FDP)—can make a very convincing case.

That is partly because Germany as a country is not particularly favourable to liberal ideas. There is an irony here. Germany's unification in the 19th century reflected the ideals of free trade and the state as the guarantor of civil rights. But these days, the fashion is for security over freedom. Ralf Dahrendorf, a former liberal politician and academic who became a British lord, says his adopted country is “institutionally liberal”, whereas Germany is “institutionally social-democrat”. Oswald Spengler, an authoritarian philosopher, put it more strongly: “There are principles in Germany that are detested and disreputable; but on German soil it is only liberalism that is contemptible.”

Different kinds of liberals also tend to end up in different parties. Those politicians who defend civil liberties are not particularly interested in economics and finance—areas that are mostly left to experts, who rarely think outside their own box. And politicians who credibly combine economic, political and social liberalism are an even rarer species.

When people like Lord Dahrendorf ran it in the 1960s and 1970s, the FDP was the clear choice for liberals of all descriptions, from free-marketeers to student radicals. But it lost its left-of-centre supporters in 1982 when it ditched its Social Democrat (SPD) coalition partners to join with the Christian Democrats. It also came to be seen as a lobby for business.

One obvious home for liberal refugees was the SPD, particularly under Gerhard Schröder, the present chancellor, who used to talk about a “new centre”—the German version of Tony Blair's ephemeral Third Way. But that appeal has lessened, leaving the Greens as the more likely home for leftish liberals.

Though the Greens' programme features higher taxes and some other illiberal ideas, their leading figures, mainly ministers in the current coalition government, are impressively efficient and pragmatic. And they champion the neglected cause of civil liberties—at least in theory, albeit only patchily when in office.

The FDP is trying to regain ground on that, though. Its manifesto contains much language about privacy and civil liberties, along with simplifying taxes, increasing competition and giving citizens more power and bureaucrats less.

But Germany's coalition-based politics mean that politicians matter more than election

programmes. That is the FDP's big weakness: the party leader, Guido Westerwelle, toyed with right-wing populism in the last election, and is a belated and unconvincing convert to the cause of civil liberties. And even on paper, the FDP's liberalism shies away from hurting the comfily protected professions that make up the bulk of the party's voters: architects, pharmacists and doctors.

The big new contender for the liberal vote is a surprising one: the Christian Democrats (CDU), long seen as a prime defender of Germany's cautious, consensual welfare capitalism. In a speech in October 2003 entitled “Quo Vadis Germany?”, its leader, Angela Merkel, portrayed herself as somebody who would, if in doubt, put freedom first—and inject much more of it into the country's economy.

Culturally, too, Ms Merkel represents a revolution within the CDU. Only a few years ago, it would have been unthinkable for a politician with her background to become a candidate for chancellor. As a childless Protestant woman from the east, she stands out from the Catholic family men who used to run the West German party. Under her, a group of open-minded youngish politicians has grown into positions of power. The CDU now even boasts a state minister with an earring who was patron of his local gay pride parade.

Still, the CDU's politics are anything but liberal on issues such as immigration and civil liberties. And Ms Merkel's recent appointment of Paul Kirchhof, a lawyer, as shadow finance minister, embodies the CDU's problems. Mr Kirchhof is a radical reformer—he wants a 25% flat tax. But the party's powerful regional chiefs in state governments quickly started talking his plan down, calling it a vision that could be implemented only in the very long term. Besides, Mr Kirchhof's views on policy would send most social liberals hurrying away: he thinks mothers should be homemakers while men earn the money.

So to whom will homeless German liberals hand their vote? Many will probably opt for the CDU, with the Greens coming in second. By making this choice, they are likely to tip the scales in favour of an FDP-CDU coalition—the outcome that the opinion polls currently suggest is most likely. Secretly, though, quite a few liberals will be hoping for an unlikely, albeit attractive, alliance between CDU and the Greens.

It is indeed hard to see how Ms Merkel, a former physics professor from the east and Joschka Fischer, Germany's Green foreign minister and a former taxi driver (and stone-throwing radical) from the west, would get along. But perhaps next time around, Ms Merkel and another Green leader could form a dream team for Germany's liberals. If that fails, there is always Lord Dahrendorf's example. The search for liberalism, he says, was one reason that he chose to emigrate.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Animal rights extremists

Four legs good, two legs bad

Aug 25th 2005
From The Economist print edition

Britain is the best place in the world to be a laboratory animal, but the worst place to breed one

AROUND 30 years ago, the Hall family diversified from dairy and sheep farming into breeding guinea pigs for use in research laboratories. Six years ago, they became the target of animal rights activists. They have been abandoned by frightened suppliers and employees and lost their entire dairy herd, which was slaughtered when their tormentors made it impossible for the milk to be collected. The nadir came last year, when activists stole the body of Gladys Hammond, mother-in-law of one of the Hall brothers, from its grave in the churchyard at Yoxall in Staffordshire.

This week, the family gave up its struggle, saying that by the end of 2005 they would stop breeding guinea pigs at Darley Oaks Farm. They hope this will at last lead to the return of Mrs Hammond's remains.

The brutality of the Halls' treatment at the hands of animal rights campaigners would never be suffered by one of their animals inside a British laboratory. Live animal research is more tightly regulated in Britain than anywhere else in the world. A 20-year-old law covering vertebrate animals (plus one species of octopus) determines that animal breeders and researchers must be licensed and are inspected by government officials on average ten times a year, often unannounced.

Before an experiment, the research laboratory must show it has the facilities and staff to care for the animals; the researcher must show he has the skills and training; and there must be no alternative to using animals—with the likely benefits of the science outweighing any animal suffering.

Under these rules, around 2.75m scientific procedures have been carried out each year since 2000 on animals in Britain. Roughly 85% involved rats, mice and other rodents, and only around 3% dogs, cats, monkeys and other large mammals. The great majority caused at most minor pain or distress, alleviated wherever necessary with painkillers or anaesthetic; only 2% caused severe pain or distress. Most animals are killed (painlessly) when the research they are being used for is finished.

The experimenters even have their own regulator, charged with minimising the future use of animals via the “three Rs”—reduction, refinement and replacement. Researchers must seek more efficient methods that involve fewer animals, look for more humane procedures and work towards developing completely new forms of experimentation that do not call for animals. But not all live animal research can be replaced. Although surgical techniques can sometimes be learned by practising on cadavers, microsurgery requiring careful control of bleeding needs living animals.

Thanks to the three Rs, animal research had been falling from a peak of about 5.5m procedures a year in the 1970s, but recently numbers have stabilised, as genetically modified animals have started to be used to model human disease. That is a cause for celebration—a sign of more worthwhile science.

One disease under study is cystic fibrosis, which is caused by one of around 200 defects on a single gene. It has no satisfactory treatment, and sufferers cannot expect to live much past 30. Researchers can now create mice with the same genetic defects and test potential treatments on them, or study the progress of the disease. This research could not be carried out on tissue cultures, as the disease affects several organs, and nor could it be done on humans—at least, not without killing them to study the results.

That amounts to a strong case for animal experimentation, you might think. Certainly 700 scientists and doctors sought to argue as much in a declaration this week. But it doesn't take very many extremists to make life unpleasant. The police reckon that around 20 fanatics are responsible for most of the damage. Their tactics have evolved since 1982, when the Animal Rights Militia sent letter bombs to the leaders of the three main political parties. They now realise that terrorism proper is unlikely to help their cause. So they have developed ways of scaring people that stop short of threatening lives—damaging property by pouring paint on cars, say, or sending fake bombs to laboratory workers. The owner of a fuel-delivery service that supplied Darley Oaks Farm found that his neighbours had received leaflets denouncing him as a paedophile.

They mostly persecute small companies, seeing them as softer targets than multinationals. Once a pharmaceutical firm, say, has built a research laboratory in Britain, it is unlikely to pull out altogether. But it may decide case by case to move some of its research abroad, leaving its investment in Britain to wither on the vine.

Although the extremists do not enjoy much support, many people share their aims. In part that's because animal rights extremists fought hard for a ban on foxhunting, which was widely supported. Stop Huntingdon Animal Cruelty, a group that acts as a rallying point for extremists, sets up stalls in shopping malls with pictures of mangled animals and petitions to sign calling for an end to research using animals. In 2002 a MORI poll for the Coalition for Medical Progress showed that 67% of people were either very or fairly concerned about the use of animals in research—though almost everyone accepts that research is sometimes needed.

It is hard to avoid the conclusion that reducing animal suffering is not the activists' main concern. If it is, they have made a poor choice of target. Domesticated cats alone kill around 300m animals each year in Britain, including around 80m mice, 15m rabbits and 3m rats. And forcing British suppliers of laboratory animals to close will lead to more animals being imported, with an increase in suffering.

Since extremists first targeted small animal-breeders, in 1997, they have closed down four outfits, breeding dogs, cats, monkeys and rabbits. The longest any of the companies lasted was two years; the most recent, perhaps because it had seen what others had endured, capitulated after only a week.

The Halls held out at Darley Oaks Farm for six years. In that sense their resistance has been a triumph, albeit a dismal one.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Conservative leadership race

Kinds of blue

Aug 25th 2005
From The Economist print edition

Ken Clarke wants to lead the band

Get article background

A FORMER chancellor says that the economic performance of the euro zone has been disappointing. The observation would hardly disturb the consumption of coffee and chocolates at an after-dinner speech delivered to economists. But in the context of the jockeying to become the next leader of the Conservative Party it can mean only one thing.

“I thought [the euro] would lead to increased productivity, efficiency and living standards and stimulate policy reforms,” Ken Clarke said, before going on to predict that Britain would not join the single currency for at least ten years. Four years ago Mr Clarke's Europhilia is thought to have cost him his chance of getting the party's top job, when predominantly Eurosceptic party members picked dreary Iain Duncan Smith instead. His change of heart suggests he wants another go.

None of the front-runners have formally announced that they are standing yet. That's because the race will not start officially until mid-October, when the Conservative Party conference is out of the way. Instead, the three main candidates—David Davis, the shadow home secretary, David Cameron, the shadow education minister and Mr Clarke—have signalled their intentions in code. Mr Clarke's code, given to *Central Banking*, which does not enjoy a large readership in Tory circles, was so deep that it had been published a week before it was even deciphered. The rules of the contest won't be settled until September 27th, when chairmen of local associations, party workers, MPs, MEPs and a few peers vote on whether to give MPs, rather than party members, the final say on who becomes the next Tory leader.

Candidates are quietly assuming that the changes will go through, so the tactical emphasis has been on building support behind closed doors in Westminster, rather than going out and winning over party members in the country. Under the new rules, any candidate who musters the support of half of Conservative MPs would become leader. Failing that, a candidate would need the support of 10% of the party's 198 MPs to stand. Mr Davis's supporters reckon that about 60 MPs back him, roughly twice as many as support Mr Cameron. Mr Clarke currently has slightly fewer still. But expressions of support don't always amount to much in the Tory party, so the contest is still open.

As the favourite, Mr Davis has concluded that the surest route to victory lies in not messing up, and so is keeping quiet. Mr Cameron has made more noise, and has positioned himself to appeal to both the traditionalist and the reforming bits of the party. But Mr Clarke presents Conservatives with a different choice. While Mr Davis has never held a senior position in government and Mr Cameron is a newcomer, Mr Clarke has been in charge of health, education and the Home Office, as well as occupying the Treasury when Britain's recent economic good fortune began.

He is also well-liked. A poll by Populus in July identified him as the most popular potential leader of the party among voters of all stripes. Mr Clarke has the appeal of the anti-politician, which is odd given how long he has been in Westminster. He knows lots about jazz, bird watching and car

racing, eats and drinks enthusiastically and doesn't bother too much about how he looks, which all increases his appeal.

But winning over the Tories is a different matter. Mr Clarke's supporters say that Mr Cameron cannot win—a sure sign that they feel threatened by him. And his new-found Euro-ambivalence also creates problems, by making him look opportunistic and casting doubt on his judgment. To counter that, he needs to come up with some new ideas. Or at least a plausible analysis of what his party has been doing wrong for the past ten years.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com WORLD EUROPE

Investigating the police

Cop killer

Aug 25th 2005
From The Economist print edition

Second-guessing the police is a hazardous business

THE recriminations began soon after Jean Charles de Menezes, a Brazilian electrician, was shot dead by London's police on July 22nd. Muslims, the media, the Brazilian government and even sections of the police have condemned the killing of Mr Menezes, who was unarmed and had no apparent links to terrorism. The consequences for those involved—including Sir Ian Blair, the Metropolitan Police commissioner—are as dangerous and unpredictable as a ricocheting bullet. But the shooting also menaces a new outfit that was set up to deal with such outrages: the Independent Police Complaints Commission.

The IPCC came into existence mostly because its predecessor, the Police Complaints Authority, was seen as too close to the coppers it scrutinised. The new model, which emulates Northern Ireland's police ombudsman, is independent and powerful. It can not only scrutinise internal police inquiries but also hold its own investigations, as it is doing in the case of Mr Menezes. If the IPCC decides that the police have done more than merely err, it can recommend a criminal prosecution.

Although the IPCC has carried out 57 investigations and managed or supervised 1,104 more since it began work in April 2004, it has not taken on a case nearly as delicate as that of Mr Menezes. Its findings are likely to transform the way the police work; they may also bring down the head of Britain's biggest force. “So far, we've managed not to fall out with the police,” says John Wadham, deputy chair of the IPCC. But the relationship is tense, and it may worsen as the inquiry continues.

The first scuffle took place soon after the shooting, as the police tried to establish whether their work might take precedence over the IPCC's. That delayed the start of the inquiry. A few days later, the police's repeated attempts to justify their conduct in the media provoked a sharp rebuke from the IPCC—something that seems to have had little effect on police behaviour. Then, on August 16th, a leak from the investigation that showed the police in a bad light infuriated officers.

None of this would have been likely in the province that provided the model for the IPCC. The police ombudsman for Northern Ireland reckons to have an investigator at the scene of a shooting within three hours. A protocol ensures that, in a case like that of Mr Menezes, the independent investigation trumps the police one. Though its reports sometimes provoke outrage, the ombudsman is well known and liked. Astonishingly, for such a divided land, the proportion of Catholics who reckon it does a worthwhile job (81%) is virtually the same as the proportion of Protestants who believe the same (77%).

The IPCC will find that act hard to follow, in part because it is more pinched for money. The budget for Northern Ireland's police ombudsman is £7.4m, which works out to £993 per officer. The IPCC, which covers England and Wales, spent £28m last year, which is just £200 per officer.

Mr Wadham admits that high-profile investigations such as that into the shooting of Mr Menezes have pushed aside inquiries into more minor, albeit more pervasive, kinds of police misconduct. That is a long-term problem for the IPCC. Nuala O'Loan, the police ombudsman, says that her

investigations into routine (for Northern Ireland) events, such as the firing of baton rounds, have done more to establish a reputation for open-mindedness than have her inquiries into bombings, shootings and other enormities.

Another problem stems from the high regard in which police officers are held. Compared with Northern Ireland's coppers, who struggle to overcome a reputation for Protestant partisanship, English and Welsh officers tend to be given the benefit of the doubt. A poll for *The Economist* in late July found that just 21% thought the police had been wrong to shoot Mr Menezes. Even when the police make obvious blunders, criticising them is dangerous.

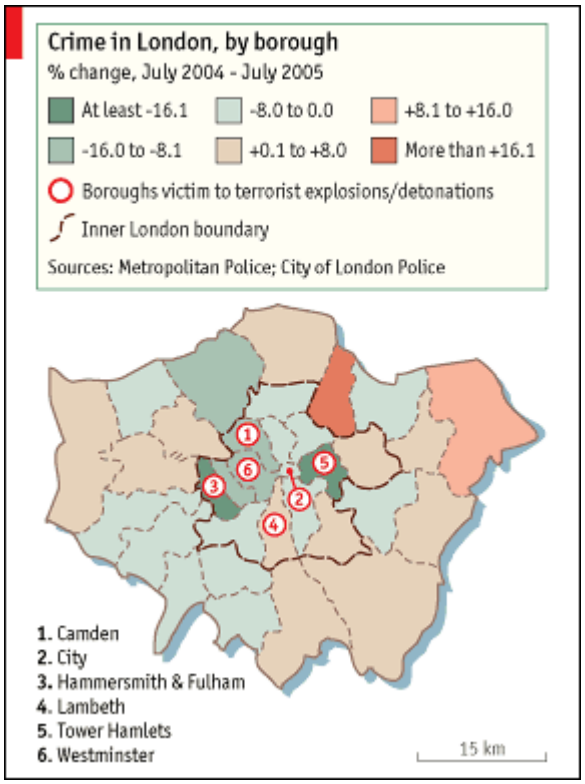
Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Crime prevention

Terrorism cuts crime

Aug 25th 2005
From The Economist print edition

At least last month's bombings in London had one good effect



Get article background

IT HAS long been the subject of speculation among the police and criminologists: what would happen if all the officers who now spend so much of their time taking statements, profiling criminals and moving pieces of paper around were suddenly put on the streets? Crime figures released by London's Metropolitan Police this week provide the best answer yet.

Following the bombings of July 7th and 21st, thousands of police officers materialised on London's pavements, many of them sporting brightly coloured jackets. Drawn from all over the city, they were assigned to guard potential targets such as railway stations. The police presence was especially heavy in the bombed boroughs: Camden (which was struck three times), Hammersmith and Fulham, Lambeth, Tower Hamlets, Westminster and the City of London.

The show of force did not just scare off terrorists. There was less crime in July than in May or June, which is unusual: the warmer month tends to bring out criminal tendencies, as windows are left open and alcohol is imbibed *alfresco*. But the chilling effect was much stronger in the six

boroughs that were targeted by terrorists. There, overall crime was down by 12% compared with July 2004. In inner London as a whole, crime fell by 6%. But in outer London, where the blue line was thinner, it went up slightly.

Simon Foy, who tracks such trends at the Metropolitan Police, says that crime fell particularly steeply on the days of the attacks, partly because of the overwhelming police presence and partly because “even criminals were watching their televisions”. What is significant is that crime barely rose thereafter. That was a change from the aftermath of September 11th 2001, when crime quickly soared just about everywhere—possibly because officers were deployed only in the very centre of London.

“The received wisdom among criminologists is that marginal changes in visible patrolling have little or no effect on crime,” says Mike Hough, a criminologist at King's College London. July's experiment should put that argument to rest. Even if offenders do not make rational calculations about the odds of being caught—which was low both before and after the bombings—they will be moved by a display of overwhelming force.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

National heritage

Signor Titian or St Mary in the Wold?

Aug 25th 2005
From The Economist print edition

England's churches are falling down. Who will pay to save them?

Get article background

THEY are a noble part of Britain's cultural heritage. They include 45% of its grade-1 listed buildings. Yet England's churches are crumbling, as repair costs soar and congregations mostly shrink. What is to be done?

Traditionally, each Church of England parish pays its own way. But that is hard for all, impossible for the many, with a fine old church but few parishioners. So why not hand the job to the diocese, the C of E's upper tier? That would spread the load, but add no new money. Few churchmen like the idea anyway. A far bolder solution now going the rounds says: give the church away. Form a local trust to own and run it for many users, not just the C of E. In effect, let the community maintain what is, at least in most country parishes, a community resource already.

In some places, that could work. But new uses are not easily fitted into old churches, let alone the 12,200 (out of the C of E's 16,200) restricted by listed-building status. And a new trust cannot magic up new money: in most places, cash for the vicar's spire or roof appeal already comes mainly from non-churchgoers.

Why not go the whole hog? Flog the church, freeing the vicar from his duties as curator of an ancient monument to get on with his real job, preaching the gospel, in the village hall or hired rooms. To an outsider it looks obvious, but few of the “curators” agree. No, they say: those ancient stones help us do that job. Even if they (and higher C of E authorities) were willing, it would be hard: “The Old Rectory” is easy to sell; many old churches would not be, except as building sites, and listed status would prevent that. And you can't just dump such a building and let it rot.

So where is the money to be found? Some churches could do more to help themselves: work at new ways of getting more than the 50 pence typically donated by the casual visitor, look actively for new, paying uses that would fit in (an aerobics class in the north aisle?). But the only road to big money is an appeal.

Local people are usually generous. So are a few charities: very notably, the Garfield Weston Foundation puts about £3m a year into religious buildings. But few priests or churchwardens are experts in fund-raising. On the spending side, few have skills in architecture or building, nor yet as clients of large repair projects for quirky structures 400 years old. The diocese of Coventry has a team of three to advise on both sides of the business; other dioceses could usefully do more.

All that done, new money there must be, if the crumbling is to stop. Last year, more than 300 churches (not all C of E) went to the Historic Churches Preservation Trust (HCPT), a small charity. On average, each expected a repair bill of £114,000—and repair costs are rising at 7-8% a year. Yet nearly all had a congregation of fewer than 60, one-third an entire parish population below

200. And a third were spending under £1,000 a year for maintenance and repair—one-seventh of what a typical old church should get. Yet no one needs to be told that today's fallen slate or blocked gutter is tomorrow's rotting roof-beam.

The backlog of repair is huge: the C of E reckons its parishes spent £101m on major repairs in 2003—but still had £373m to complete. And it is not alone: Catholics, Methodists and others, too, have their historic buildings. About 1,400 of these (including some 35 synagogues) are listed.

The novelty really needed, say those in the field, is a new sense of national priorities. Translation: more money from the state. To help keep England's 20,000 active places of worship in repair (the Scots and Welsh have their own arrangements), the Heritage Lottery Fund today gives some £15m a year. The money is micro-managed by English Heritage, which adds £10m from its own budget; a budget, notes Michael Hoare, the banker who chairs the HCPT, that Whitehall has barely raised in five years, as against a doubling of sports funding, or 50% extra for the Arts Council.

The state also fixed its £3m for a trust that looks after redundant churches five years ago. But it has been more generous in one way, letting listed churches and the like reclaim initially much, and since April 2004 all, of the value-added tax on their repairs. By now, this may be worth £15m a year. They also get about £2m of a “landfill” tax on refuse dumps.

In all, say £45m a year. Even so, the churches meet over half their own repair costs. Should the state do more? For “the state” read “the British public”. As Mr Hoare might also have noted, its ears will soon be ringing with demands from the grandees of high art that a Titian portrait now on loan to the National Gallery be “saved for the nation” from the horror of being sold abroad. Phrases like “£50m and worth it” will be bandied about. That sum to keep one Venetian masterpiece, or save maybe 400 English churches? The two aren't in fact alternatives: the cash, public and private, would come, if it does, from different sources. But which is more truly part of Britain's national heritage?

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Consumption taxes

The prices of sin

Aug 25th 2005
From The Economist print edition

If you want to stop people drinking and smoking, you should tax them

MUCH ministerial brow-sweat has been devoted to turning Britons into healthier, better-adjusted citizens, but the public has a nasty habit of spoiling the party. New figures provoked hand-wringing this week when they suggested that British alcohol consumption is rising even as the French and Germans are drinking less. Alcohol-fuelled crime is on the increase and smoking rates, which the government has promised to reduce, are stuck.

To economists, the solution is obvious: just raise taxes on the goods in question. Successive governments have taken this advice to heart, leaving Britain with some of the highest “sin taxes” in Europe. Yet Labour has abandoned fiscal tinkering for a sort of social engineering that comes over as inconsistent: liberal laws that allow pubs to open around the clock in the hope of curing Britain's drink culture sit oddly with authoritarian plans to forbid smoking in public places.

Alcohol duties have not risen in real terms for more than a decade. In his latest budget Gordon Brown, the chancellor, froze taxes on spirits for the eighth budget in a row. Duties on beer and wine rose only in line with inflation. That means that booze is a third cheaper, in terms of disposable income, than it was 25 years ago (see chart). Smoking is another government bugbear: at first it promised to continue the Conservatives' policy of above-inflation rises in tobacco duty, and in 2004 it adopted ambitious targets to reduce the prevalence of smoking from 26% of the population to 21%. Yet tobacco taxes have shadowed inflation since 2001, meaning that, as a proportion of disposable income, cigarettes are getting cheaper. Why does the government's tax policy not match its social ambitions?

Part of the reason is that substitute goods are easily available. Gaspers and booze are much

cheaper in continental Europe, and generous travellers' allowances allow Britons to bring back large quantities tax-free. As taxes rise, the contraband cigarettes and smuggled alcohol available on the black market become more appealing. All that means taxes become less effective the higher they get.

Yet the main reason is political. Raising taxes on popular consumer goods in line with wages would make any government unpopular, but there are particular difficulties with both smoking and drinking.

The problem with smoking is one of fairness. Few experts doubt that higher prices would reduce consumption. Professor Joy Townsend, of the London School of Hygiene & Tropical Medicine, reckons that a 10% increase in price would lead to a 4% drop in sales. But smoking is a working-class hobby: around a fifth of office workers smoked in 2001, compared with almost a third of those in manual jobs. So while all indirect taxes fall most heavily on the poor, tobacco duties are especially regressive. That makes tax rises politically tricky for a party that traditionally draws much of its support from the working classes.

The politics of alcohol is different. The debate focuses more on law and order than public health, with the government trying to stop drunken yobs rather than encouraging ordinary citizens to cut down on their drinking. And although increasing the price of booze would probably help stop excessive drinking, doing so would penalise sensible drinkers. “The evidence strongly suggests that one tool for reducing heavy drinking is to decrease overall consumption by increasing the price,” says Sir Michael Marmot, an epidemiologist at the University of London, and chairman of a group of scientists that produced a report on the subject for the Academy of Medical Sciences. “But the counter-argument is: why reduce consumption when the majority are not getting into trouble?”

Yet the general increase in alcohol consumption may be storing up future health problems. Deaths from cirrhosis of the liver have risen nearly five times since 1970. Among young people, they are up ninefold. The World Health Organisation lists alcohol as the world's third-biggest threat to public health. One recent paper* reckons that a 10% rise in British alcohol prices would cut alcohol-related deaths by 28.8% for men and 37.4% for women. If alcohol consumption continues to increase, and with smoking rates stubbornly unchanged in spite of government targets, tax rises could start to look more attractive.

---

* “Alcohol and public health”, by R. Room, T. Babor, J. Rehm. The *Lancet*, Vol. 365, Issue 9458, 5 February 2005, Pages 519-530.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Triathlon

Wacky races

Aug 25th 2005
From The Economist print edition

The lure of a fast-growing sport

LAST weekend, sportsmen and women of an unusually hardy disposition descended on Sherborne, a pretty Dorset town. There, they swam twice around Sherborne Castle's lake, cycled 180km and then ran a marathon. The winners of this gruelling race—Britain's inaugural Ironman triathlon—were rewarded with a spot in a prestigious race in Hawaii, where yet more pain awaits.

For a sport barely known in Britain five years ago, triathlon has grown at a sprinter's pace. This year the British Triathlon Association, the governing body, will sanction some 450 triathlons, duathlons (running and biking) and aquathlons (running and swimming). These vary from tough races aimed at endurance junkies to shorter events designed to lure newcomers. By far the most successful is the London triathlon, which, three weeks ago, brought 8,000—half of them first-timers—to the Royal Victoria Dock in east London. That made it the world's biggest.

There are echoes of the jogging craze of the early 1980s. Both sports are American exports; both have grown partly thanks to television coverage. Inclusion in the Olympic and Commonwealth games has conferred credibility and state funding on triathlon. Even better, Britain's professional triathletes are doing rather well on the international circuit.

There are practical reasons for the growth of the sport, too. Nick Rusling, event director of the London triathlon, points out that established events such as the London marathon and Great North Run are hugely over-subscribed (this year the marathon received 98,500 applications for 36,000 places). Triathlon offers a more reliable route to exhaustion, and a fresh challenge to athletes who are likely to cross-train anyway.

The sport will not soon supplant “the great suburban Everest”, as Chris Brasher, founder of the London marathon, described his event. The sport's tripartite nature means that putting on events is fiendishly complex, a fact reflected in high entry fees: competitors at last weekend's Ironman race forked out £220. Shorter events are cheaper, but participants must still provide their own bicycles and wetsuits and pay for training. Compared with the inhabitants of Newham, the London borough where this year's London triathlon was held, competitors appeared overwhelmingly white and middle class.

Another drag on growth is a shortage of suitable venues in a small island—a problem exacerbated by safety fears. But that ought to be less of a hindrance in future. Two court decisions, in 2003 and earlier this year, have firmly established that the owners of large bodies of water may not be held responsible when adults injure themselves as a result of extravagant sporting actions.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Pharmaceuticals

The lessons of Merck's bad day in court

Aug 25th 2005
From The Economist print edition

AP

The only certainty in Merck's future is many more hours in the courtroom

Get article background

“WE TRY never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear,” said George Merck, an early chairman of the eponymous drug company. On August 19th, a jury in Texas decided to give the drugmaker a not-so-gentle reminder of that dictum. It awarded a whopping $253m in damages to the widow (pictured above) of Robert Ernst, a 59-year-old marathon runner who died from an irregular heartbeat caused, so the jury concluded, by Merck's now infamous anti-inflammatory drug, Vioxx.

This was the first, ominous verdict in more than 4,000 lawsuits that Merck faces over Vioxx. These reflect a dramatic decline in the fortunes of what was until recently one of America's most respected companies but is now the poster child for the drug industry's worst excesses. Indeed, last week's verdict is prompting questions about Merck's ability to survive the Vioxx crisis, at least as an independent firm.

The firm's current difficulties began in September 2004, when it suddenly withdrew Vioxx from the market in the light of clinical trial results suggesting that people taking the drug for more than 18 months had a higher risk of cardiovascular complications than those going without it. Investors responded by wiping almost $27 billion off the value of Merck's shares.

Ironically, Merck's decision to pull the drug was voluntary, not at the behest of its regulator, America's Food and Drug Administration (FDA), which had approved Vioxx in 1999. By voluntarily withdrawing the prescription drug—which generated worldwide revenues of almost $3 billion a year—Merck had hoped to reinforce its reputation as a responsible firm by going further than it was obliged to do. Some critics argue that it instead made Vioxx seem more dangerous than it really is, prompting more lawsuits than a less dramatic response would have done. The man responsible for this strategy, Merck's then boss, Raymond Gilmartin, paid the price in May when he was forced to quit.

Merck's attempts to appear virtuous were somewhat undermined by the release of research by David Graham, an FDA official, which suggested that at least 80,000 cases of serious heart disease in America may have resulted from people taking Vioxx. Even more damaging was the discovery of internal e-mails that appeared to show that some executives in Merck were aware of the risks associated with Vioxx years before it was withdrawn.

Mark Lanier, the plaintiff's lawyer, made much of Merck's allegedly deliberate economy with the truth, and played on the current public hostility towards the drug industry to win his case. This was despite the lack of any scientific evidence that Vioxx actually killed Mr Ernst. Evan Schaeffer, another personal injury lawyer, says that it had been widely assumed this lack of evidence made the case “unwinnable for the plaintiffs”. It may yet help Merck to overturn the verdict on appeal. Anyway, under Texas law the award it has to pay is certain to be sharply reduced, probably to about $26m. Nonetheless, the verdict surprised investors. Some estimates of the damages that Merck will eventually pay in all lawsuits now top $30 billion.

Even if Merck's payment to Mr Ernst's widow is slashed, the damage has been done, says Jim Copland of the Centre for Legal Policy at the Manhattan Institute, a think-tank. The verdict and size of the initial award will stick in the minds of jurors in future cases, as well as encouraging further claims, he says. Moreover, there are fears that this sort of litigation will make drug regulators drag their heels on new drug approvals, and drive drug firms away from innovations using risky new science.

Indeed, the withdrawal of Vioxx has raised serious questions about the ability of the FDA, and the medical system as a whole, to monitor the safety of drugs after they have been approved, and about the power of the regulator to mandate changes to drug labelling and advertising. It also prompted a debate, not least in the FDA, about the risks not just of Vioxx but also of other so-called “COX-2” inhibitors, such as Celebrex and Bextra sold by Pfizer.

Ironically, earlier this year an FDA advisory committee controversially paved the way for a possible return of Vioxx to the market. But would that be a wise strategy for Merck? On the one hand, having Vioxx on the market might send reassuring signals that would help it win some of its pending lawsuits. On the other, imagine the public outrage—and lawsuits—if other side-effects to the drug were found.

Merck—which is also under investigation by both America's Department of Justice and the Securities and Exchange Commission—says that it will fight every Vioxx case, and will not settle out of court. Other firms have passed through this furnace of litigation. Wyeth, for example, set aside more than $20 billion to deal with lawsuits over a diet drug, Phen-Fen. Merck may yet regret not seeking a general settlement—or, if there are many more verdicts like last week's, it may do so after all.

Merck's woes should reinforce the recent trend in the drug industry to again put good science before marketing, and in particular to be full, frank and fast in disclosing the results of drug trials, and especially evidence of problems. Yet given the flaws in America's tort system, legislators might do well to consider creating some form of safe haven from lawsuits for drugs once they have been approved by the FDA. Another option would be to create a product-liability fund for drug makers along similar lines to the one for vaccine makers.

As for Merck, Dick Clark, its new boss, faces many other challenges aside from litigation. There is the probable loss of billions in annual sales by 2008 when the American patents for its two remaining bestsellers, Zocor for high cholesterol and Fosamax for osteoporosis, will have expired. The successor to Vioxx, Arcoxia, has been put on hold in America. Nor is the firm's pipeline bursting with new drugs. Merck, like many of its peers, has gone through a drought in R&D, with several failures in late-stage drug development.

Once the firm has sorted out Vioxx, perhaps Mr Clark will do the one thing that the old Merck steadfastly resisted: merge with another firm. As John Schaetzl, an analyst with GE Asset Management, points out, Merck is no better or worse than many other drug firms; it just seems to have fallen further because it was held up so much higher than the rest.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Textiles

Knickers in a twist

Aug 25th 2005
From The Economist print edition

Chinese clothing imports pile up at Europe's borders

AP

No socks please, we're European

EUROPE'S retailers were hoping this week for a relaxation of import quotas that have left millions of Chinese-made garments, ranging from pullovers to underwear, piling up at ports and borders. The clothing was impounded because volumes have already exceeded annual import limits that the European Union (EU) agreed with China only in June. The retailers, however, had ordered their autumn stock months earlier and have been complaining loudly to the European Commission, the EU's executive, that unless the blockade is lifted many shelves will be empty and small retailers may go bust.

“Goods worth hundreds of millions of euros are being held, and much of it has already been paid for,” said Ralph Kamphöner, international-trade adviser to EuroCommerce, a Brussels-based trade group that represents retailers and wholesalers. The commission has to be flexible in allowing these goods through or retailers will face serious financial consequences, he added.

Indeed, thanks to such lobbying, the commission is now expected to juggle the quotas in various ways to let in some of the Chinese clothing. A team of European trade negotiators flew to Beijing this week to discuss with the Chinese what action could be taken. But Peter Mandelson, the EU's trade commissioner, is under pressure not to be too lenient, especially from those European countries—notably France, Spain and Italy—that are anxious to protect what is left of their own textile industries.

The retailers argue that while they had only a few months in which to make arrangements for the new quotas, Europe's textile producers had a decade to prepare for the expiry last January of the Multi-Fibre Arrangement, which had long imposed limits on the export of textiles from developing countries.

Faced with lobbying by Europe's domestic producers, the EU agreed voluntary quotas with China on certain textile imports until 2008, thus delaying full liberalisation. But the new quotas, the retailers argue, are unfair because they are retroactive. While some of Europe's big retail chains—such as Hennes & Mauritz and Metro—admit to having some problems, most have been able to find alternatives to Chinese-made garments. Smaller companies, however, have less flexibility and are feeling the pain more.

How the issue is settled will be watched closely in America, which also imposed curbs on Chinese textile imports after they surged there this year. American trade officials are now involved in their own set of talks in Beijing over limiting China's textile exports to America until 2008. Reports from

China suggest that a deal may be signed when Hu Jintao, China's president, meets President George Bush, on September 7th—just in time for the autumn sales.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Hollywood and DVDs

The way we were

Aug 25th 2005
From The Economist print edition

The DVD market is not as wonderful as it used to be

NOT long ago, home-entertainment bosses were fêted in Hollywood as the saviours of the film industry. The digital-video disc (DVD), their hot new product, was bringing in billions of dollars—each year far more than the last. As a result, the studios could continue to spend ever-increasing sums on big stars, special effects and marketing. But now, it seems, the headiest days of the DVD are over.

DreamWorks Animation SKG, a small film studio, recently reported a loss in its second quarter and again said it expected lower full-year earnings in 2005 than it had originally forecast, because of disappointing sales of its film “Shrek 2” on DVD. Its boss, Jeffrey Katzenberg, said that he did not know if the shortfall reflected a short-term retail issue or a slackening of demand. Many in Hollywood and on Wall Street fear it is the latter. DreamWorks Animation is not alone, after all; in June, Pixar, another animation studio, lowered its forecasts because of lower-than-expected sales of “The Incredibles” on DVD.

According to the Digital Entertainment Group (DEG), a trade group made up of movie studios and consumer-electronics firms, Hollywood shipped 403m DVDs to America's stores in the first quarter of this year—one-fifth more than in the first quarter of 2004. That is a healthy growth-rate, but far slower than in the whole of 2004, when nearly 50% more DVDs were sent to shops than in 2003—and much lower than previous years' dizzier increases of 100% or more. Moreover, the DEG's numbers ignore the fact that stores return unsold DVDs. Nor do its numbers reflect the fact that studios have lowered DVD prices for some categories, such as classic films. Sanford Bernstein, an investment research firm, predicts that the rate of growth of DVD sales in dollars (as opposed to units) will slow to 9% in 2005 and 4% in 2006.

That the DVD market should slow is not really surprising. Nearly 70% of American homes with TVs now have DVD players. Those who bought them early have already built a library of DVDs. Poorer people who have waited until now to buy a player for around $50 buy fewer titles. And nationwide retail chains such as Best Buy and Wal-Mart have stopped shifting shelf-space to DVDs as they did in the format's earlier days, says John Frelinghuysen, a consultant at Booz Allen Hamilton.

In 2004 home entertainment supplied 20% of revenues at Walt Disney, 14% at News Corporation and 11% at Time Warner, says Sanford Bernstein. Some studios seem to be hurting more than others. The head of home video at Disney has felt an impact. Others are more sanguine. “It's hard for me to feel concerned when my DVD sales are growing at 30% so far this year,” says an executive at a rival media firm. The problems of “Shrek 2” and “The Incredibles”, he claims, were specific to them, and should not be extrapolated to the whole DVD market. Although the market is maturing, he says, “6% growth now is still worth a huge amount in dollar terms because the market has got so big.”

Coming soon on DVD

Slowing DVD growth has coincided with a bad patch for movie-going. Revenues at American cinemas—where “The 40-Year-Old Virgin” (see picture) is currently riding high—are likely to be 9% lower this summer than last, forecasts Exhibitor Relations. Poor results at the box office will not help sales of the same films on DVD either, says Gary Arnold, senior vice-president of entertainment at Best Buy.

As well as making more hit films, says Mr Arnold, the best thing the entertainment industry can do about slowing DVD sales is to agree on a new improved format. Today the “Blu-ray” disc, backed by Sony and others, is fighting a rival format, the “HD-DVD”, backed by another consortium. A new format offers the best chance of revving up sales. But consumers will upgrade in a few years' time only if the electronics and entertainment industries agree on a single technology standard.

In the nearer term, if DVD sales growth slows to low single digits, traditional media conglomerates will come under more pressure. Their growth rates are already sluggish because the American advertising market is mature and ad dollars are moving to the internet. Their share prices are falling. The last thing they need is for the DVD boom to peter out so soon.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Trade unions

Going global

Aug 25th 2005
From The Economist print edition

Workers of the world attempt to unite against Wal-Mart

Get article background

“GLOBAL companies need global unions,” says Noel Howell, a spokesman for the Union Network International (UNI), a federation of 900 trades unions from 150 countries. It is hard to think of a single global firm that would agree. Certainly not Wal-Mart, the world's biggest retailer with 1.6m workers, 1.2m of them in America. It says that unionisation is not “right” for Wal-Mart, at least in America, and that unions “do not want us to succeed”.

The UNI held a congress in Chicago this week with the supposed need to unionise Wal-Mart as a main theme. (Four other firms—DHL, an express delivery company, Walt Disney, Rupert Murdoch's News Corporation and Ikea, a Swedish furniture store—were identified as future targets.) Wal-Mart is leading a “race to the bottom” in wages and benefits, the UNI claimed, and other big firms would follow by choice or necessity. According to a study last year by the University of California, Berkeley, wages at Wal-Mart were so low that taxpayers in California alone footed an $86m bill for health benefits and other assistance claimed by Wal-Mart employees.

Wal-Mart retorts that it offers “good, affordable coverage” of benefits to staff willing to pay $70.50 per fortnight per family. Anyway, with Wal-Mart's tax bill of about $5 billion a year, American taxpayers come out well ahead. Whatever shortcomings Wal-Mart may have as an employer, it can hardly be accused of paying less than the market rate, at least in America. Last week it said that over 11,000 people had applied for 400 jobs at a new store in Oakland, California.

If Wal-Mart worries about unions at all, it may judge that things are moving in its favour. Last month one leader of the unionise-Wal-Mart campaign, the United Food and Commercial Workers, walked out of the AFL-CIO, the umbrella organisation for American organised labour. It followed in the footsteps of two other big unions, the Service Employees International Union and the Teamsters.

The AFL-CIO has not been very powerful in recent years relative to individual unions. Still, a more divided labour movement is probably going to be a weaker one—which is to say, an even weaker one, given the relentless decline of American union membership in the past 50 years, from 30% to 12.5% of the workforce. Given similar trends in most of the world, multinational firms such as Wal-Mart are unlikely to be quaking in their boots at this new campaign.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Offshoring

Into Africa

Aug 25th 2005 | JOHANNESBURG
From The Economist print edition

Can South Africa ride the outsourcing and offshoring wave?

LAST month, Amazon, an online retailer, announced that it had opened a software development centre in Cape Town. Chris Pinkham, a South African who is returning home from Seattle to head the operation, says that Amazon chose South Africa because of its pool of high-calibre IT workers and good infrastructure. The new outfit will create programmes for users around the world. Will other foreign firms also move such operations—a strategy known as “offshoring”—to South Africa?

According to a recent study by McKinsey, a consultancy, South Africa is well placed to benefit from the trend of firms shifting business processes, such as customer care and payroll administration, to cheaper places. This, says McKinsey, could create 100,000 jobs in South Africa as well as attracting a modest but useful $90m-175m in foreign investment by 2008.

Global demand for offshoring from American and British firms alone is forecast to rise from $10 billion now to maybe $60 billion by 2008, 40% of which is likely to be in banking and insurance. That is more than countries such as India, China and the Philippines—which meet much of the demand today—are likely to be able to handle. So newcomers such as South Africa are after a piece of the offshoring pie.

As well as speaking English and being in a time zone close to Britain's, South Africa offers sophisticated insurance and banking sectors; a (modest) pool of qualified people; well-developed telecom and IT infrastructure; and good business services. British and American firms could cut the cost of some services by 30-40% by providing them from South Africa. That is why IBM has decided to open a global call-centre for international corporate clients in Johannesburg. Merchants, a subsidiary of Dimension Data, a South African IT firm, runs a call-centre for a big international media and communications company.

Yet much needs to be done if South Africa is to win a lot more business from abroad. There is no lack of competitors, from India to Malaysia and Singapore. South Africa has yet to market itself well as an offshoring centre. Other countries offer bigger investment incentives and make setting up shop far easier. The body that represents call-centres, the South African Contact Centre Community (SACCOM), lacks the resources to drive the development of the sector—in sharp contrast to, say, India's highly effective NASSCOM.

South Africa is also far pricier than the likes of India and the Philippines. Labour regulations are too rigid, raising the cost of doing business. The staggering price of telecoms is an even bigger problem. According to Genesis Analytics, a consultancy, a firm in South Africa will pay over nine times more than one in Singapore for ADSL broadband internet service, almost twice as much as in Malaysia for a domestic leased line, and 11 times more than in India for a local call. An international phone call costs 70% more from South Africa than India; leasing an international line to America costs ten times more.

Telkom, South Africa's biggest telecoms company, was privatised eight years ago with a monopoly

over fixed lines. International calls have become cheaper, but the cost of a three-minute local call ballooned by an average of over 25% every year in 1997-2003. That raised the cost of all services—from mobile calls to internet access—via lines leased from Telkom.

New laws have recently introduced some competition. A second fixed-line operator is expected to start soon. Telkom has also been under pressure from the government—which admits that pricey telecoms are hindering investment and growth—to cut its hefty tariffs. Last month, the independent regulator imposed a cap on Telkom price rises. But Telkom retains its monopoly on undersea cables transporting data and voice to the outside world.

More and faster competition is badly needed to cut the cost of telecoms—which would give call-centres a chance to flourish. The government now considers the offshoring sector a priority. A public-private partnership to drive the development of offshoring is being set up. South Africa must get its act together, or foreigners will send their business to other shores.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Consumer and small-business software

The king of disrupting

Aug 25th 2005 | MOUNTAIN VIEW, CALIFORNIA
From The Economist print edition

Can Intuit, solver of American nightmares, now improve health care?

THERE is at least one corporate honour greater than making it onto the very short list of firms that Clay Christensen of Harvard Business School, author of “The Innovator's Dilemma” and “The Innovator's Solution”, considers “serial disruptors” of established industries. And that is staying on the list. Sony, for instance, was probably the most fearsome disruptor ever, but only between 1955 and 1982, when “its engine of disruption got shut down,” as Mr Christensen puts it. Something similar could be said about IBM, Microsoft, Hewlett-Packard, Johnson & Johnson, and Eastman Kodak, and arguably also about Cisco and Intel. The one firm already on the list that seems to have a fair chance of staying on it is the least glamorous of the lot—a software firm in Silicon Valley called Intuit.

That, at least, is what Steve Bennett, Intuit's chief executive, tells himself and his employees. Intuit, he says, specialises in helping people to do “things you have to do, not want to do, that have deadlines, and that have repercussions if you do them wrong”—boring and painful things with lots of paperwork, in other words, such as tax returns and business accounts. Hence Intuit's two main products: QuickBooks, popular book-keeping software for small businesses that do not know credits from debits; and TurboTax, software that helps consumers to file America's Byzantine tax returns. Hence, also, Intuit's push now into a new category: health care.

America's health-care industry, says Mr Bennett, is a great “white space” in which Intuit can do some disrupting. The system is broken, he argues, because “it's a third-party payer system.” Most other rich countries have some form of single-payer health-care system (such as Britain's NHS), which may have its drawbacks but at least keeps paperwork down for patients. America has a fragmented industry of private and public insurers and providers, each with an incentive to pass the buck to somebody else in the chain, which leaves patients with long paper trails of confrontational forms and huge anxiety.

The good news is that this system is so backward in administrative technology (though not medical technology) that it is again catching the eyes of America's entrepreneurs—who briefly flirted with it during the internet bubble. Steve Case, late of America Online, thinks that health care in America is today where the internet was in the mid-1990s—confusing, unusable and ripe for “revolution” (the name of his new firm). Intel's former boss, Andy Grove, regularly preaches or writes about the inefficiencies of the health-care industry. John Chambers, boss of Cisco, various venture capitalists and other Silicon Valley types are also increasingly interested in it.

So far, none offers anything that is both specific and dramatic, but Intuit comes closest. It has launched a software package called “medical expense manager”. This grew out of an idea from Dan Robinson, an Intuit engineer who had a baby with a rare disease and entered a hell of claims paperwork. The software helps patients to keep track of their various bills and forms and to manage them. But this, Mr Bennett makes clear, is only the first “small baby step” toward solving the bigger crisis.

Ever mindful of their mission to be serial disruptors, both Mr Bennett and Scott Cook, Intuit's co-founder, prefer to talk about their approach, rather than their latest plans. At its core is their habit—straight out of Mr Christensen's theory—to ignore conventional market-share figures (which, at 87% for QuickBooks and 80% for TurboTax, would be flattering) and instead to focus on the potential total available market, including current non-consumers. In the case of TurboTax, for instance, Messrs Bennett and Cook are less focused on the taxpayers who use rival software than on the 100m or so (out of 132m) tax filers who hire professionals or use pencil and paper.

Intuit's magic appears to lie in how it gets and pleases these non-consumers, which in turn has much to do with the fortuitous complementarity of the roles and personalities of Messrs Cook and Bennett. Mr Cook, as one employee puts it, is “professorial” and “visionary”—always open to bold ideas, though not a managerial titan. Mr Bennett, by contrast, spent 23 years at General Electric under Jack Welch, quotes his golf handicap to a decimal point (5.3) and pontificates ad nauseam on “six sigma”, “core values” and so forth. He is “more like a general,” says a colleague.

Intuit's name for the *yin* element personified by Mr Cook is “customer-driven invention”. Intuit has small armies of researchers who follow, literally, people home to watch them do things—struggle to complete their hospital claims, for instance—and then bring back the tales to head office for some out-of-the-box thinking on how to improve this. Intuit thereby comes up with answers to questions that consumers themselves do not even know to ask. The *yang* element—in essence, Mr Bennett—is called “net promoter”: an obsessive methodology for measuring how happy customers are and for making them even happier so that they recommend the product to friends, becoming, in effect, Intuit's unpaid salesforce.

This does not mean, of course, that Intuit will necessarily succeed in upending the health-care industry as it disrupted professional accounting and tax-preparation. Then again, accounts, taxes and health care in America have a lot in common. They are nightmares defined by government regulators; and they horrify most Americans, who are in turn extremely open to new ideas.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

America's booming goat industry

No kidding

Aug 25th 2005 | 4D RANCH, HILL COUNTRY, TEXAS
From The Economist print edition

Cuter than sheep, healthier than steak

"GOATS are by far the fastest-growing segment in agriculture," claims Bob Duke, chairman of the American Boer Goat Association (ABGA). On the 5,500-acre goat ranch he runs in Texas's beautiful Hill Country, business is booming. Last year, he says, prices for goat meat rose by 50%, and demand shows no signs of slowing. The bearded Boer billygoats grazing in the shade are much sought-after, and even the ageing nannies will get a good price.

Should cattlemen fear for their jobs? Not just yet. America has almost 40 times as many cows as goats. But as the ranchers explain, "ethnic" (meaning non-WASP) Americans cannot get enough goat. Muslims like to roast goat on their holidays. Hispanics hanker after *capretto*—baby goat that was still suckling its mother. Indians indulge in goat stew. Happily for goat farmers, these populations are among America's fastest-growing. Consumption of goat meat in America rose by 64% in 1999-2003. Predictions are that it will keep growing by about 10% a year. American ranchers cannot keep pace with demand. In 2003 America imported 17m pounds of goat meat, up by one-third since 2001.

American farmers began to take the business seriously in the early 1990s, when meaty Boer goats from South Africa first arrived in the country. Suddenly the animals ballooned from weighing 20-30 pounds (9-14 kilos) to 70-80 pounds. At about the same time, the raising of goats for mohair or cashmere fibre declined after the withdrawal of government subsidies.

Texas has the most goat farms in America, thanks to its dry climate. But Ray Bowman of the Kentucky Goat Producers Association reckons that goat numbers in his state have risen by four- or fivefold in the past three years. In places such as Kentucky and Tennessee, small farmers are using government money to replace unhealthy tobacco with healthy goats. The business provides a "pretty good return", says Mr Bowman, though "not as good as tobacco was". As a sign of the market's new sophistication and efficiency, goat meat now sells more by the pound and less by the head—although there is still rarely a distinction between grades of goat as there is with beef.

Character helps. In livestock shows in Texas, there are often more goats shown than sheep or hogs, says Robert Swize of the ABGA. "Goats have a lot more of a personality to them than sheep do," claims Mr Duke. People are keener on goats' grazing habits. Goats are good for weed control, and can get by in rougher country than cattle, such as on the steep hills that border the 4D ranch. They need less land to graze on than cows, and have more babies. The big worry is predators, such as coyotes—and nightmares such as foot-and-mouth disease (though the spotlight this summer was on Texan cattlemen in their battle against a case of mad-cow disease).

Goat cheese and other dairy products are already popular gourmet items. As for goat meat, a few fancy restaurants in Manhattan now serve *capretto*. In theory, goat should please even the keenest dieters—as high-protein as beef but lower in fat than chicken. Perhaps it can help the food industry solve its customer-obesity problems (see article). How long before McDonald's is selling the Big Billy?

Face value

The man with two daggers

Aug 25th 2005
From The Economist print edition

BenQ

Can K.Y. Lee succeed in creating a Taiwanese global brand?

IF CHINA is the workshop of the world, Taiwan is its technological design studio. The island nation of some 23m people makes three-quarters of the world's notebook computers, two-thirds of its liquid crystal display (LCD) monitors and 80% of its personal digital assistants. It is home to some of the world's biggest semiconductor makers. Yet few consumers have heard of TSMC or Acer, Hon Hai Precision Industry or ASUSTEK Computer. The laptops, phones, PlayStations and iPods they pump out by the millions are sold mostly under other firms' brands.

But, for all their size and importance, many of these firms are troubled. They face declining margins as prices for IT gadgets tumble. Most already have cut manufacturing costs to the bone, with super-efficient supply chains and production and supplier bases relocated to mainland China. At the same time, their customers want them to do more value-added design work and respond to ever shorter lead times. A few of Taiwan's “original design manufacturers” (or ODMs, as they style themselves) are trying to escape this dilemma by building brands of their own.

The charge is being led by BenQ, a maker of LCD monitors, mobile-phone handsets, digital cameras and notebook computers. Its chairman and chief executive, K.Y. Lee, argues that the industry's only way forward is to shed its current anonymity: “If we just focus on the ODM business, the only way to go is cost cuts. For stable revenues long term we must build a branded goods business. It is the only way to survive.”

BenQ was spun off from Acer, a big computer maker, in 2001, explicitly to put into practice what

Mr Lee calls his “two dagger” approach: using the sizeable cash flows from contract manufacturing to finance brand building. Since then, its revenues have grown rapidly, rising to NT$165 billion ($5.3 billion) last year. Within that total, sales of its own-brand goods have grown from 29% to 37%. Mr Lee deserves much of the credit for this improvement. Although the 52-year-old trained as an engineer, he went on to specialise in sales and marketing at Acer before being promoted to run BenQ in 1991. His belief that technology should be fun and simple to use is in stark contrast to the nerdy, production-led values of many of his peers.

Nevertheless, BenQ's recent success is less dramatic than it first appears. Its second-quarter results, released on August 18th, revealed a 30% slump in turnover and a first operating loss since the company was separately listed four years ago. The reason was a sharp squeeze in prices for LCD screens (a staggering 40% drop in one year) and—more important—a one-third fall in handset shipments as Motorola, the group's biggest client, shifted orders to rival Compal. Accounting for about 90% of BenQ's mobile-phone sales and one-fifth of group revenues, Motorola was “the most profitable part of the business” says Dominic Grant, an analyst at Macquarie Bank. Nokia has also, reportedly, cut orders of clamshell handsets from BenQ.

Motorola's departure shows why Taiwan's faceless tech suppliers may struggle to build household names. By marketing its own handsets in Europe and Asia, BenQ came into direct conflict with Motorola, which, say insiders, would not tolerate a big supplier becoming a rival. It is a conflict that could turn just as bitter for Taiwan's technology industry as the wider political conflict with China has become for the island as a whole. Mr Lee claims that most clients in mature sectors approve of BenQ building its own brands, because the resulting innovation and customer know-how benefits their businesses. But in growth segments such as mobile handsets the conflicts are clear.

Taiwan's tech companies cannot afford to lose contract clients because revenues from them pay for brand building, an expensive, long-term challenge. Despite spending more than $100m on marketing in the past three years, BenQ's funky purple logo remains little known, its website is underwhelming and its flagship “Joybook” notebook computers are “not doing very well”, admits Mr Lee. With production and its supplier base already centralised at Suzhou, near Shanghai, Mr Lee sees little scope for more big cost cuts to offset its spending on promotion.

Yet BenQ must keep spending if it is to catch up with already established brands. In digital cameras, it faces big, entrenched Japanese firms such as Canon and Sony. Dell and Hewlett-Packard are increasingly carving up the personal-computer industry and mobile phones are going the same way, with three global brands—Nokia, Motorola and Samsung—dominating. Nor is it clear that contract manufacturers, their culture steeped in the rigours of inventory and cost control, have or can develop the soft skills and vision needed to sell directly to the public.

A stab in the dark?

Mr Lee's answer has been to attempt to accelerate his strategy by buying an established brand. In October, BenQ is due to complete the purchase of the mobile-handset operations of Siemens, a German conglomerate, making it the world's number four and doubling its revenues to $11 billion a year. But with that business making big losses (so big that Siemens in effect paid BenQ to take the division off its hands), analysts worry that it will be at least the end of 2006 before it can be dragged into the black. And that assumes that BenQ can side-step cultural problems with the European workforce, streamline manufacturing, cull the overlapping model range, keep distributors happy and deliver more than $400m of cost savings.

It seems a tall order with uncertain returns. “Margins in the branded business can be high,” muses Mr Lee, “but so are marketing costs. It is hard to say whether the branded or the contract

business is more profitable." BenQ seems to have little choice but to attempt the leap from anonymity. But like his peers, Mr Lee must hope that, with a two-dagger strategy, he does not end up stabbing himself in both feet.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BUSINESS

Yum! Brands

Fast food's yummy secret

Aug 25th 2005 | LOUISVILLE, KENTUCKY
From The Economist print edition

Alamy

America's second-biggest fast-food group is as successful as it is little known

IT IS one of the biggest companies in one of the biggest industries in America. Its brand names litter the highways and high streets of the world. From its modest base in Louisville, Kentucky, it oversees the opening of three new restaurants, one of them in China, every day. Last year it earned pre-tax profits of $1 billion on sales of $9 billion. Yet few of its customers have ever heard of it.

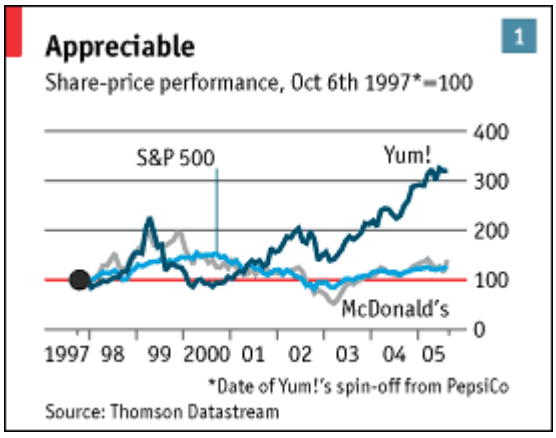
But if they know KFC (previously Kentucky Fried Chicken), or Pizza Hut, or Taco Bell, then they know Yum! Brands. The parent of those three fast-food chains, it has 34,000 (mostly franchised) restaurants around the world, 2,000 more than McDonald's. At home in America it accounts for about 4% of all restaurant-industry sales, behind only McDonald's at 6.5%. With 1,378 KFC restaurants in China, and 201 Pizza Huts at mid-2005, Yum! owns two of the best-known brand names in the world's most populous market. Not bad going, you might say, for a company that Pepsi-Cola got rid of in 1997 because, in the words of one PepsiCo executive, “restaurants weren't our schtick”.

Restaurants are very much the schtick of David Novak, the boss of Yum!, a PepsiCo veteran who was named president at the time of the spin-off. He became chief executive in 1999 and chairman in 2001, inheriting those jobs from Andrall Pearson, a former president of the PepsiCo group who was put in charge of Yum! to give the company stature on Wall Street. At PepsiCo Mr Pearson was rated one of the toughest bosses in America. Mr Novak, by contrast, was a dress-down, folksy, call-me-David type of boss who wanted people to feel that work should be fun too. The two men got on well, partly because Mr Pearson softened his approach when he saw how employees responded to Mr Novak's more accessible style, which included frequent presentations, tunefully

accompanied by an in-house kazoo band, of rubber chickens and mechanical false teeth to employees who impressed him.

Mr Novak declared that he was going to “love” the franchisees, who owned 60% of Yum!'s restaurants at the time of the spin-off (the proportion is now about 75%), and whom PepsiCo had not always treated gently. Restaurant managers got stock options. The logic: if the managers were happy, they were more likely to treat well the “crew” members working the kitchen and the counter, whose efficiency and relative cheerfulness was also vital to the restaurants' success. Some morale-boosting has trickled down, but still not enough. The average American kitchen employee sticks at a job with Yum! for one year, almost twice as long as in 2000.

The spin-off gave Yum! (which was called Tricon until 2002) the chance to reap economies of scale across the restaurant brands, which had sometimes behaved more like rivals under PepsiCo. Advertising media-buying was unified through a single agency, for example. Individually, each brand might be the 40th or 50th biggest buyer in America, but collectively they were in the top five and Yum! could use that clout to get better deals. The acquisition of restaurant sites could be managed so that divisions would not bid against one another. International operations were brought within a single division, continuing a trend started under PepsiCo. This concentrated the resources needed to penetrate new markets, a strategy that has paid off handsomely in China. There, KFC has gone after the fast-food market, whereas Pizza Hut has positioned itself more as a place for casual dining, Taco Bell is just beginning to test the market and Yum! has set up a focused logistics and supply company to serve all of its chains.

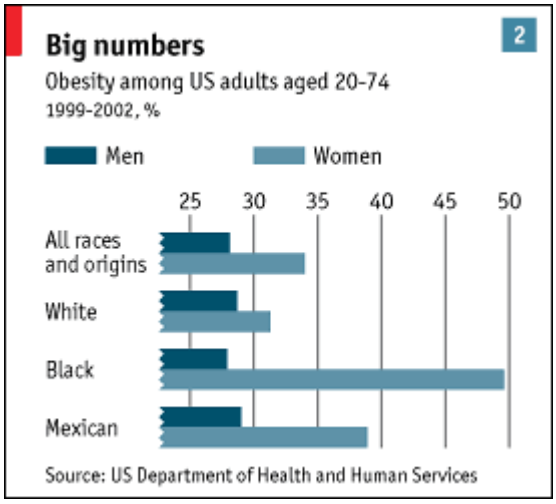


Yum! may lack the concentrated efficiencies of McDonald's at its best. At McDonald's, vast resources power a single brand, generating sales per American restaurant almost twice as high as Yum!'s. But Yum! has come a long way since the spin-off in 1997, as has its share price (see chart 1). Most of that bounce has come in the past two years, as investors have fixed on Yum!'s impressive growth in China. There, operating profits have risen from $20m to $200m since 1998, and look set to go on growing. By getting into China early and boldly, Yum! has left even McDonald's in the dust. Sales faltered early this year when Yum! had to withdraw products containing an allegedly dangerous additive, sparking a public health scare. But that was quickly overcome—good practice if bird flu becomes a pandemic, perhaps—and sales are recovering fast. If Yum! were in almost any other industry, the glow of admiration surrounding its early years as a publicly listed company would be almost embarrassing.

The fat years

But Yum!'s industry, fast food, has had a terrible few years in image terms, beset in America with

controversies over obesity and animal welfare that may intensify. As the industry's leading brand, McDonald's has been first in line for many of these attacks. But such attacks have changed the psychological climate in which the entire industry operates, and they may yet change the legislative climate too.



The main cause of change has been a steady rise in the proportion of Americans characterised as overweight, from 47% (bad enough in itself) in the late 1970s to more than 65% in 2002, including 31% who were clinically obese (see chart 2). According to the government, medical costs attributable to obesity reached $75 billion in 2003, almost half of which fell on taxpayers through public health-care schemes. A paper this year in the *Journal of the American Medical Association* attributed about 112,000 premature deaths in 2000 to obesity.

The blame for this bloating has been laid mainly at the feet of the fast-food chains, whose American sales grew from about $6 billion in 1970 to a forecast $134 billion in 2005, and which have sold themselves mainly on their capacity to deliver very large quantities of food at very low prices. Eric Schlosser, author of “Fast Food Nation”, an influential book attacking the industry, points out that Americans spend more on fast food than they do on higher education, PCs or new cars.

A film denouncing McDonald's, “Super Size Me”, was nominated for an Academy Award this year and earned the third-highest ever box-office takings by a documentary. Its director, Morgan Spurlock, says that between 1971 and 2000 the average American woman's daily intake of calories rose from 1,542 to 1,877, and the average American man's from 2,450 to 2,618. The government recommends daily intakes of 1,600-2,000, and 2,200-2,400 calories respectively for adults doing only “light physical activity”. A single meal at a KFC can top 1,600 calories for less than a pound-weight of food plus a large Pepsi—and the KFC menu is far from the most calorific. According to the Centre for Science in the Public Interest, an advocacy group, a cheese-and-French-fries dish popular in steakhouse chains contains about 3,000 calories, more than the total recommended daily food intake for an adult male. And that is a side dish.

Yum!, like other fast-food companies, has felt obliged to respond to health concerns. It has put more salads and lighter dishes on its menus, though without any great expectations. “We are offering salads because that is what people want to see,” says Mr Novak, choosing his verbs carefully. But the salads are not what the industry calls “business builders”: they are there to win over the “veto vote”, offering something to the calorie-conscious eater who might otherwise dissuade a whole family or group from going to a KFC or a Taco Bell.

Lawsuits brought on health-and-safety grounds have been more of a warning than a general threat to the fast-food industry so far. In 2003 a New York judge dismissed a lawsuit claiming that McDonald's had misled customers into believing that its food was healthy, but the suit was partially reinstated this year. Twenty American states have passed “common sense consumption laws” aimed at deterring obesity cases in local courts. But lawyers such as John Banzhaf, a professor of public interest law at George Washington University Law School in Washington, DC, still see a similarity between the position of fast-food companies now, and that of tobacco companies in the 1960s and 1970s, when private lawsuits paved the way for a co-ordinated attack on “big tobacco” by the attorneys-general of nine American states. The attorneys-general demanded that the companies compensate the states for publicly-born health-care costs attributed to smoking, and won a $250 billion award payable over 25 years.

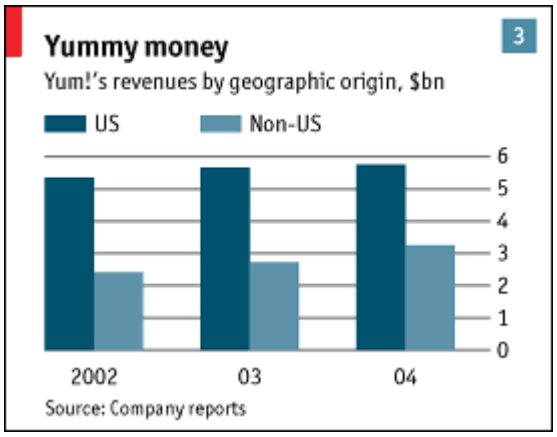
“This is not tobacco or asbestos, there is no single food source that can be blamed for obesity,” says Mr Novak. “The industry will be able to deal with this.” He says that neither the threat of litigation nor recent attacks on KFC by animal-rights activists are doing anything to change the fundamental strategies or the fundamental values of Yum!. “We listen to the voice of the customer, we follow all the regulations, we make great food,” he says.

Others are less sanguine. At an obesity conference in New York in February sponsored by UBS, a Swiss bank, expert panellists said that American states' attorneys might indeed “begin looking for obesity-related settlement funds in the face of ballooning public-health costs”; that current lawsuits and other public attacks on the fast-food industry could be “softening the landscape for future litigation”; and that public opinion would be the deciding factor. “If the public becomes convinced over time that obesity is a big enough problem to require governmental regulation, or that companies are somehow to blame”, the conference concluded, “then the courts and politicians will likely follow.” Worries about rising obesity rates among children, and fear of subsequent legal actions, are already causing companies to scale back their marketing of fatty food and soft drinks to minors. Restraint is seen as the best defence against statutory controls.

Burgeoning in Beijing

While the political and legal arguments over obesity in America go on growing, overeating may possibly have peaked. The proportion of overweight adults was two percentage-points lower in 2004 than in 2002, according to household surveys by the NPD Group, a business-information company (though Trust for America's Health, an advocacy group, said this week that obesity was still rising). That may be good news for fast-food companies in legal terms. But it also signals less appetite for their traditional products. The average American bought 3% fewer take-away meals last year than in 2000, says NPD. The fastest-growing take-away food franchises in America now are sandwich bars, led by Subway and Quiznos, which can plausibly claim to offer a “healthy” alternative to the deep-fried and mostly-meat products of the hamburger, chicken and taco chains. Subway's advertising campaigns are centred around a real-life figure called Jared Fogle who claims to have lost 245 pounds in weight by eating mainly Subway sandwiches. Jeffrey Merrihue, a marketing expert with Accenture, a consulting firm, says the Fogle factor is “almost unbelievable, but massively important—it has changed the industry.”

Nor does there seem much scope for traditional fast-food chains to grow in America by opening new outlets. According to UBS, three-quarters of Americans already live within three miles of a McDonald's. Two-thirds live within three miles of a Pizza Hut and a Taco Bell and a KFC as well. That is hardly any distance for a population that spends so much time in cars (though rising petrol prices are starting to bite). Two-thirds of purchases at these chains go out through the drive-in window, says UBS. To expand, then, the chains will have to win business from one another, using new pitches and products.



But the tougher the fight, the more size should count, if smartly used. Yum! has the resources to get things right in the end, even with some wobbles along the way. It brought Taco Bell back from a very bumpy patch in 1998-99, when falling sales forced some franchisees to turn to Yum! for loans. Lately it has nursed KFC through three years of weak sales, when too little product development left the brand looking “tired and poorly positioned”, according to Restaurant Research, an independent consultancy. Partly by trial and error, Yum! hit on two strategies for putting KFC right. It added a cheap hot sandwich to the menu, called a “Snacker”, which is easy to eat (unlike chicken on the bone). And it started a makeover of the brand image, bringing back the full “Kentucky Fried Chicken” name at some outlets, giving new prominence to touched-up portraits of Colonel Harland Sanders, the chain's founder, and promoting once more the cardboard “buckets” of chicken it had abandoned briefly in the 1990s.

A longer-term Yum! strategy, cutting across all its brands, is to put two or sometimes three of its brands into a single restaurant, with a common kitchen. This means additional training and equipment, but it boosts customer volume and makes new outlets economic in places where the population would be too small, or the real estate too expensive, for one brand alone.

These strategies have helped Yum! to increase same-store sales by 3% year-on-year in the first half of 2005—less than the 5% growth for the same period at McDonald's, but better than the zero growth Yum! was getting from its American stores two years ago. Mr Novak thinks there is more growth left in the American market than the conventional wisdom allows, and he is optimistic about continental Europe too. But he also recognises that “people are not buying our stock because of the US, they are buying it because of China”.

Good ole Uncle Sam

In China, Yum! has combined the luck and skill needed to be in the right place at the right time. It got in early, did well, bet bigger and has prospered ever since—a tribute to its country management, led by Sam Su, president for China since 1997. Yum! reckons that 500m urban Chinese can so far afford its food, leaving another 800m still to come into the market. Mr Novak likens the Chinese market to the American one in the 1950s, when the fast-food industry was inventing itself. And in China, Yum! has more of a first-mover advantage than Colonel Sanders or even McDonald's ever did. It has two strong brands, twice the restaurants of its nearest rival, McDonald's, and young people queuing up to work for it: more than 80% of its restaurant managers in China are college graduates. Thanks partly to China, this year Yum! is making about two-fifths of its operating profits outside America, up from one-fifth in 1998. It could take only a few more good years in China, and a few flat years in America, to tilt the balance decisively.

China might seem an exotic market for an American fast-food firm, but it is a logical one. Yum!'s

core business is not really making food, but feeding people, and China is where the people are. Yum! gives them what they appear to want, repackaging it often enough to keep it interesting. Yum! is, in its way, as plain and simple as a huge company could be. Its key values are persistence, ingenuity and good humour. It is living proof that in the food industry, as in the newspaper business, you will never go bust by under-estimating the public taste. But you have to do it cheaply, efficiently and on a very large scale.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

The Colonel

By the bucket

Aug 25th 2005
From The Economist print edition

The rich, full life of a fast-food pioneer

MUCH as he might resemble the inspired figment of an advertising man's imagination, Colonel Harland Sanders, the face of Kentucky Fried Chicken, really did exist, and really was a colonel—though the title was an honorary one conferred by the governor of Kentucky, not a military rank.

Born in Indiana in 1890, Sanders left school at ten and for the next 30 years pursued a fine American life as a farmhand, street-car conductor, soldier in Cuba, railway fireman, lawyer, insurance salesman, ferry-man, tyre salesman and petrol-station operator. When the petrol station, in Corbin, Kentucky, did well, he opened a motel and restaurant, where he perfected his fried-chicken recipe. The state governor, the gloriously named Ruby Laffoon, so enjoyed eating there that he named Sanders a Kentucky Colonel in 1935.

When a new interstate highway killed the motel in the early 1950s, Sanders started travelling the country frying seasoned chicken for restaurants and offering them his recipe for a royalty. The first to agree, a Utah restaurateur called Leon Harman, suggested the paper “bucket” which soon became part of the brand. In 1964, when Sanders had 600 franchisees, he sold the business for $2m to private investors who resold it in 1971 for $285m to Heublein, a drinks company, which in turn was bought in 1982 by R.J. Reynolds. The tobacco company sold Kentucky Fried Chicken to PepsiCo four years later.

Sanders died in 1980, a rich man, but not nearly as rich as if he had taken shares instead of cash for his business. Still, he seemed happy enough. He called his autobiography “Life as I Have Known It Has Been Finger Lickin' Good”.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Oil and the global economy

Counting the cost

Aug 25th 2005
From The Economist print edition

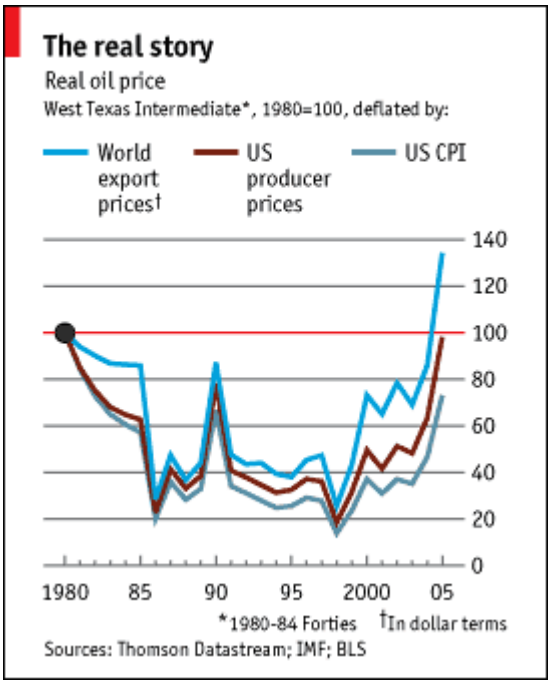
Reuters

Can the world economy continue to shrug off high oil prices?

HAD you been told in late 2001—not long after that September's terrorist attacks, and when stockmarkets had been tumbling for 18 months or so—that the price of crude oil would more than triple within four years, you might well have predicted global economic meltdown. The price of a barrel of West Texas Intermediate has risen from $18 in November 2001 to record levels: it hit yet another new high, above $67, this week. This is similar in scale to the price jumps of 1973-74, 1978-80 and 1989-90, all of which were followed by worldwide recession and rising inflation. Today, though, global GDP growth is well above trend, while inflation remains low. Why has the world economy fared so comfortably this time?

There are several popular explanations. The simplest is that, although the latest price increase is about as big as those in previous episodes, it has been more gradual. In 1979 the price of oil doubled in six months; this time it took 18 months, giving households and firms more time to adjust and so doing less damage to their confidence and finances and hence to economic activity. This is plausible, but unlikely to be the whole story: no matter what the pace of the increase, it pains Americans to pay $3-plus for a gallon of petrol.

Another common line is that in real terms oil is not terribly expensive. True, adjusted for American consumer-price inflation, the price of a barrel of crude would have to be about $90 to beat the mark it set in 1980. But this is small comfort: thus measured, the real price is already above its peaks of 1974 and 1990, which were high enough to bring on recession.



Moreover, a calculation of real prices depends on the deflator used. Relative to American producer output prices, the appropriate measure for businesses, real oil prices are already close to their 1980 peak. For an oil-importing economy as a whole, however, the relevant deflator is arguably export prices, since the main way that dearer oil causes pain is through the terms of trade. Relative to global export prices, oil prices are at an all-time high (see chart).

A third argument used by the sanguine is that the modern economy now runs on brain power and microchips rather than on oil. Developed countries use half as much oil per real dollar of GDP as in the mid-1970s, thanks to improved energy efficiency, a switch to other sources of energy and the shift from manufacturing to services. This means that a given rise in oil prices makes a smaller dent in output. However, while rich countries have greatly reduced the oil content of their GDP, many emerging economies are still big energy guzzlers. Some Asian economies, such as India and South Korea, use more oil per dollar of GDP today than they did in the 1970s.

Furthermore, even if America consumes less oil relative to GDP than it did 30 years ago, it also produces less, so its net oil imports are roughly the same as a percentage of GDP (just under 2%). And the impact of oil prices on GDP depends on net imports not on consumption, because oil producers gain when prices rise.

Crude analysis

According to the IMF's model, an increase of $10 a barrel in oil prices should knock three-fifths of a percentage point off the world's output in the following year. Thus the increase of $30 over the past year or so should have reduced global growth by almost two percentage points. However, all such ready-reckoners are based on previous oil shocks, when the main cause of higher prices was a disruption to oil supplies: the OPEC oil embargo in 1973-74; the Iranian revolution in 1979; and Iraq's invasion of Kuwait in 1990.

The current episode, however, has its origin in increasing demand, notably in China, the rest of Asia and the United States. Last year's increase in global oil consumption was the biggest for almost 30 years. The old rules of thumb based on supply shocks do not work for price increases

driven by rising demand. If oil prices rise because of a shortfall in supply, they will unambiguously cause GDP growth to fall. However, if higher oil prices instead reflect strong demand, then they are the product of healthy global growth. They will therefore be less damaging.

The downside is that, if prices are high because of strong demand rather than a supply shock, they are likely to stay high for longer. In past oil shocks, a rise in price as a result of a temporary supply disruption caused oil consumption to decline, so that when supply returned to normal prices promptly fell. But if oil prices are being pushed higher largely by rising demand in China and other emerging economies, a sudden collapse is less likely.

This is not to deny the role of speculators, whose bets that prices have further to climb have given the market an extra momentum—perhaps leaving it vulnerable to a future drop. Even so, with demand growing strongly and supply unusually tight as a result of years of inadequate spending on exploration, development and refining capacity, any serious supply disruption would push prices yet higher. The basic fact is that the equilibrium price of oil has risen: analysts at Goldman Sachs expect oil to fetch an average of $68 a barrel next year and $60 for the next five years. In the long run, such high prices will encourage exploration and bring forth increased supply that will eventually dampen prices, but this will take time.

The inflation novelty

The relatively gradual rise in prices, the lower oil-intensity of many economies and the role of strong demand rather than a fall in supply all go some way to explaining why this time the effects of higher oil prices on world GDP have so far been muted. However, perhaps the biggest difference between today's high oil prices and earlier bouts lies in the response of inflation and interest rates. In the past, rising oil prices pushed inflation up sharply; sooner or later, central banks raised interest rates. And this time? Figures out last week showed that the headline rate of inflation in America leapt to 3.2% in July from 2.5% in June, largely because of higher oil prices, yet the core rate of inflation only edged up from 2% to 2.1%. Indeed, inflation worldwide is unusually low, thanks partly to global competitive pressures from China and elsewhere. Subdued inflation, and the expectation that it will stay that way, have allowed central banks to hold interest rates lower than in the past.

As a result of low interest rates, America and some other economies have enjoyed a boom in house prices, accompanied by a surge in household borrowing and a falling saving rate. Higher oil prices have acted like a tax on consumers, leaving them less money to spend on other goods. But in America this has been fully offset by borrowing against soaring home prices. This explains why higher oil prices appear to have depressed domestic demand by more in Europe than in America: in most euro-area economies there has been little or no cushion from increased borrowing against property.

The fact that America's economy has been able to shrug off higher oil prices mainly as a result of a housing and mortgage bubble is hardly a comforting thought. What happens when house prices flatten, or even fall? Consumers will then feel the full force of dearer oil. Come to think of it, a further spike in oil prices could even be what pops the housing bubble, if it unsettles consumers enough. So far, the rising oil price has done little harm; but worse may well be on the way.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Oil and exchanges

Hot oil

Aug 25th 2005
From The Economist print edition

Heavy trading volume boosts the outlook for exchanges

PRODUCERS are not the only ones grinning about the price of oil. For the exchanges trading in oil futures, and those that list the shares of oil companies, the current obsession with “black gold”—where will the price go next?—is proving good for business.

Daily trading volume on the New York Mercantile Exchange (NYMEX), the world's largest energy exchange, hit a record 1.2m contracts earlier this month, driven in large part by the frenzy over oil futures. Meanwhile, the International Petroleum Exchange (IPE) has seen record turnover on its benchmark Brent crude contracts. Eager to grab a bigger share of the trade in Brent as well, NYMEX has sought permission to open a trading floor in London, where it will compete head-on with the IPE. After London, NYMEX has its sights set on Dubai.

The attractiveness of these exchanges is underscored by interest from prospective investors. Private-equity groups such as Blackstone and General Atlantic have been circling NYMEX, which is currently owned by its members, in the hope of buying a stake in the exchange. The members have yet to decide on selling, though. A NYMEX seat, which includes an ownership stake, sold for a record $2.75m earlier this month.

Equities exchanges have benefited too, with heavy trading in shares of oil-related companies such as Lukoil, which is listed in London. “People will invest as soon as they hear the words ‘Russian oil',” says Ivan Mazalov, a portfolio manager at Prosperity Capital Management in Moscow, who says overseas investors do not always know what they are getting into. Four of the six Russian companies listed on the London Stock Exchange (LSE) are in the oil business, as is another on AIM, the LSE-owned exchange geared to smaller companies, with significant Russian assets.

The hunt for energy by China and others to fuel their booming economies has also pushed interest in oil companies to the fore. The bid by the China National Offshore Oil Corporation for America's Unocal aroused lots of media attention and political ire before it was withdrawn. This week, amid much less fuss, came a successful Chinese raid, this time in Central Asia: by China National Petroleum Corporation, the country's biggest state-owned oil firm, to buy PetroKazakhstan.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Wall Street

Ground Zero plus one

Aug 25th 2005 | NEW YORK
From The Economist print edition

Goldman Sachs gets a new home

EVEN in a tight property market, classy negotiators can do well. Ask Goldman Sachs. On August 23rd, the investment bank won the blessing of New York's elected officials and a pile of subsidies for a new, 43-storey headquarters next to the site of the destroyed World Trade Centre.

The state government, which owns the site, might have been thought to have a strong hand. Big plots of undeveloped land with public transport nearby are not abundant. Goldman's current home, 85 Broad Street, is too small. Few of its employees were keen to work across the Hudson River, in New Jersey, where the firm already has a new building. There was no obvious place in midtown Manhattan for Goldman to go—as Lehman Brothers did just after the attacks of September 11th 2001, moving into a brand new skyscraper that Morgan Stanley forsook for an old office park out of town. Other rumoured options would have taken time, in knocking down old buildings and in talking through complicated financial details.

None of this meant much to the state. Following the attacks, George Pataki, the governor, had hoped that a revived lower Manhattan would serve as his legacy. Instead, his inept handling of Ground Zero's redesign has delayed reconstruction and caused Goldman to walk away from a prior deal, citing worries about security. With the fourth anniversary of the attacks nearing, criticism about the slow pace has been mounting. Explaining the departure of one of lower Manhattan's few remaining financial firms, and arguably the most important, would not have been easy.

Given the state's desperation, the bankers at Goldman could hardly have failed to extract concessions. Large subsidies agreed in the first deal were inflated in the second, and more were added. To put up a $2 billion building, Goldman will be able to issue $1.7 billion in generously subsidised bonds and will receive loads of added inducements, including $25m for job creation and retention (enough to pay for a few investment bankers) and a sales-tax exemption on furniture and office equipment. A long-term lease on the underlying land has been granted at a cut rate. There will be $150m in state and city tax credits. And there may be more: not all the details have yet been revealed.

Some people grumble that the plan will merely encourage big companies to bargain for preferential tax deals from the state and the city, pushing the tax burden on to smaller firms. Others have criticised the deal not for financial reasons but because it disrupts the recent evolution of lower Manhattan from a financial hub to a district of smaller offices, homes and parks. Better, goes this logic, to let Goldman build elsewhere—say in the area west of midtown where the Olympic stadium was to have been built.

Still, New York will not go entirely empty-handed. Goldman's headquarters will be the first built in lower Manhattan since J.P. Morgan's skyscraper on Wall Street in 1988 (the bank has since moved to midtown). Goldman has promised to keep 9,000 employees in lower Manhattan and to add another 4,000 in the next 14 years. The skyline will get a boost from a building quite out of character for the traditionally understated Goldman: 85 Broad Street does not even carry the

firm's name. In the financial world, however, what distinguishes the new building will not be the grandeur of its architecture, but the beauty of the transaction that brought it into being. Perhaps, when using this as a precedent to negotiate their own subsidised deals, rival bankers will conclude that New York is a great place to do business.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Indian property

Another boom

Aug 25th 2005 | MUMBAI
From The Economist print edition

Why foreigners are so keen on India's property market

THIS year's monsoon may have brought terrible suffering to Mumbai, but nothing seems to dampen the property market in India's commercial capital. At a recent government auction, the prime eight-acre (3.2-hectare) site of the former Elphinstone textile mill was bought for 4.4 billion rupees ($101m) by Indiabulls Real Estate, a subsidiary of Indiabulls, a local securities broker firm. In recent months Mumbai has seen the pricey sales of five large pieces of land on which its now defunct textile mills once stood; Indiabulls Property, a related company, snapped up another of these, Jupiter Mills, in May.

Like those of many other countries, India's property market is booming. The difference is that India's was long out of bounds to institutional investors, particularly foreigners. That appears to be changing: 60% of Indiabulls Property is owned by Farallon Capital Management, a San Francisco hedge fund. This month Indiabulls closed a $150m offering of global depository receipts to fund its recent property acquisitions; Fidelity, Goldman Sachs and Merrill Lynch were large investors.

Two forces lie behind the boom. First, investors are betting on the consumption-driven growth of India's economy that is spawning glitzy shopping malls, entertainment centres, multiplexes and luxury hotels. Some reckon that the retail trade will soon be opened to foreign investment and that the likes of Wal-Mart will fuel the demand for commercial property. The second factor is India's emergence as a hub for global outsourcing. Last month GE Commercial Finance, General Electric's investment arm, said it would put $63m into a $350m fund sponsored by Ascendas, a property developer and asset manager from Singapore. The fund will finance information-technology parks; the idea is to make money from capital gains and leases. GE is already a large investor in business-process outsourcing in India; this marks its entry into commercial property.

The immediate attraction for foreigners is the easing of restrictions on direct investment in the property market in February this year. Foreign companies can set up subsidiaries or joint-ventures to develop property, provided that their money is locked in for three years and that plots are of at least a minimum size.

Locals have also joined in. HDFC, India's largest mortgage lender, and State Bank of India, the largest commercial bank, closed a seven-year, 10 billion rupee property fund for Indian investors in July. ICICI Venture, a subsidiary of another big bank, is raising a $250m venture fund to finance commercial and residential property development.

However, India's property market remains unorganised and underdeveloped. This creates risks for investors. In the absence of clear title to property, the risk of litigation is high, says Gagan Banga, a director at Indiabulls. The Elphinstone property is mired in a high-court action because the previous private owner challenged its nationalisation. And for those who invest in India via real estate investment trusts, there are no rules on the marking of their stakes to market or on whether they must pay stamp duty on transactions, says Renuka Ramnath, who heads ICICI Venture.

Also, as property prices have shot up, by over 20% in places in recent months, some give warning of a bubble. Deepak Parekh, chairman of HDFC, says that prices in Gurgaon, a satellite town outside Delhi that has attracted many outsourcing companies, are now falling, having doubled in the past year. The central bank raised the risk weight assigned by banks to their loans on commercial property to 125% from 100% in late July.

For some, the dizzying rise in Indiabulls' shares is an uncomfortable reminder of the dotcom boom. The five-year-old company, founded by three smart engineers and in which Lakshmi Mittal, a steel magnate, was an early investor, floated shares in September at 19 rupees apiece. They now trade at around 225 rupees, having topped 250 this month. The company's market capitalisation has risen from 2 billion rupees to 30 billion. Perhaps it is time to get those seatbelts on.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Eastern Germany

Still troubled

Aug 25th 2005 | HOYERSWERDA
From The Economist print edition

Signs of a German economic recovery are hard to spot in the east

Get article background

A GIANT power station, open-cast coal mines, industrial glass production and army artillery ranges used to provide a livelihood for the 70,000 inhabitants of Hoyerswerda, in the former East Germany. Since German reunification in 1990 the army and the glassmakers have gone, and the power station has shed thousands of jobs. The population has fallen by half. Among those who remain, the unemployment rate is 22.3%.

And this is Saxony, supposedly the powerhouse of economic revival in the east: at 2.1%, its GDP growth was the only one among eastern states to beat the national average last year. Hoyerswerda and other, purpose-built communist-era towns illustrate how the east's troubles continue, even as the national economy is at last showing signs of life. They are one reason why the European Commission is still minded to designate eastern Germany, except Berlin, as an "Objective 1" development area, qualifying for investment subsidies of up to 30% until 2013.

Since reunification, €90 billion ($110 billion) a year has been poured into the east. Infrastructure and renovated buildings now match the west's high standard. But unemployment still averages nearly 20%. Many of the jobless, from school leavers to the chronically unemployed, are put on endless training schemes—training, many ask, for what? Hence the strength in recent polls of the Left Party, with its roots in communism, ahead of next month's general election. In the east it has been scoring around 30%. Among those once ruled by communists, eastern Germans are not alone in their discontent (see article). Being part of a rich, capitalist country, though, may make troubles harder to bear.

The government of Saxony is trying to develop tourism in the Lausitz area, where a chain of lakes, the relict of open-cast mining, is the main attraction. But investors, apart from one setting up a riding school, have been slow to put money into a region little known for tourism. Around Dresden and Leipzig, Saxony's main cities, it is a different story, with "clusters" of industry and supply chains built around the manufacture of cars and computer chips.

A change of national government next month looks likely, and might mean a rethink of plans to rebuild the east. Dieter Althaus, the Christian Democrat premier of Thuringia, who has been named "co-ordinator" of the east by the conservative opposition, wants to replace indiscriminate tax rebates for investment with more targeted support. This week the premiers of most other eastern states protested that as much money as possible is needed. Mr Althaus says that there will be no less money, but that it will be distributed case by case, not by "watering can". He denies that developing clusters is the only goal. But regional economists conclude that it is better to concentrate on winners than to spread the cash too thinly.

The obstacles to job creation in eastern Germany are huge. Most obviously, labour costs, although 62% of the level in western Germany, are still roughly four times higher than in neighbouring

Poland and the Czech Republic. “We haven't seen a large-scale relocation to the east,” says Mr Althaus. Improving productivity and lowering labour costs will help, he adds, but eastern Germany is still in danger of being “sandwiched” between prosperous old Europe and the EU's new members.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

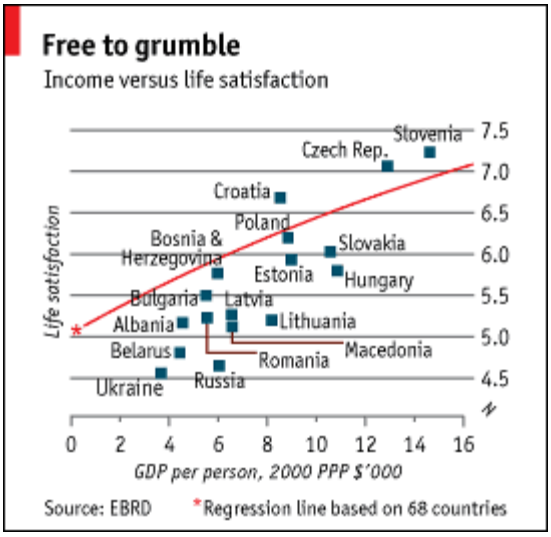
Economist.com FINANCE & ECONOMICS

Economics of happiness

Change and decay

Aug 25th 2005
From The Economist print edition

Happiness in eastern Europe is a complicated business



FROM the comfortable capitalist West, it is hard to see the collapse of communism as anything but an unalloyed triumph. And 15 years on, the results look pretty good—most formerly communist countries are now stable democracies with growing economies and peaceful foreign relations. What more could a former captive nation want?

Apparently quite a lot. Statistics about incomes and elections tell only part of the story. For those on the spot, particularly the poorer, older and less-educated, the transition to capitalism has often been a miserable experience. But for whom exactly, and by how much? A partial answer comes from newly published research* by Peter Sanfey and Utku Teksoz, of the European Bank for Reconstruction and Development, based on data from the World Values Survey, a big comparative study that regularly asks the simple but revealing question: "All things considered, how satisfied are you with your life as a whole these days?"

There is a rough correlation between wealth and happiness. Alpine Slovenia, with its highly developed export and tourism industries, is both the richest and the cheeriest; Ukraine, appallingly misgoverned and uncompetitive, is the poorest and the least content. Transition countries are glummer than other places with similar income levels: communist rule can seriously ruin your mood.

But money and history are not the whole tale. Some people (Czechs, for example) are happier than their national income per head would suggest; others (such as Slovaks) are much gloomier. Such variations are partly explained by three things. One is inequality, which is particularly resented in post-communist countries. Second is the extent of economic reform: those that have

moved least, like Belarus, are the most miserable. Third, and rather oddly, higher inflation seems to make people happy—perhaps because the alternative, curbing it, means cuts in social spending.

Individually, the biggest winners are the well-educated, the self-employed and women. These three categories, especially when combined, show soaring happiness scores.

Over time, the first decade of reform brought declining happiness everywhere; initial euphoria rapidly gave way to frustration, insecurity and disillusion. But the good news is that happiness scores are now rising. Of those surveyed, only Poles are even gloomier than in the mid-1990s. However, this is a troubling exception—Poland is bigger than the other seven ex-communist European Union states combined.

There is little chance of improving the lives of the inflexible and unemployable. But given the correlation between happiness and small businesses, cutting the bureaucracy, taxes and corruption that stifle them makes sense. Luckily, that is what almost every post-communist country is trying to do. Sadly, the places that need it most do it slowest.

---

* “Does Transition Make You Happy?”. Available at http://www.ebrd.com/pubs/econo/WP0091.htm

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com FINANCE & ECONOMICS

Economics focus

Pensions by default

Aug 25th 2005
From The Economist print edition

Behavioural finance offers a tempting alternative to voluntary and forced saving for old age

GOVERNMENTS around the world want workers to save more for their pensions. Alarmed at the impending strains on public budgets as the post-war baby-boom generation nears retirement, they are anxious to limit the load on already stressed tax-financed pay-as-you-go pension systems.

But in turning this policy goal into reality they face an awkward dilemma. Left to their own devices, many workers do not save enough for their retirement, if they save at all. Exhortation falls on deaf ears; even generous tax incentives are ignored. But if the voluntary approach is ineffective, compulsion is an invidious alternative. Although individuals will control the savings they are forced to make, many will resent mandatory contributions and regard them as a tax increase.

Politicians would love to avoid this dilemma. Fortunately for them, economists are now offering them a way to do that: simply make enrolment into funded pension schemes automatic. At present, most workers have to opt in to retirement-saving plans. With automatic enrolment, they have to opt out. This flick of the switch makes pension saving the default option while retaining the voluntary principle.

The simplicity of the policy is deceptive. It is grounded in some quite subtle findings of behavioural finance. This branch of economics, which draws upon psychology and experiments, shows that people are not always rational, especially when it comes to saving. Although they may want to save for old age, they never get around to it because they lack the self-control to put their good intentions into effect in the short term.

The economic interpretation of this tendency to procrastinate is that in trading off present and future consumption people apply a higher discount rate in the short term than in the long term, rather than the same rate assumed in mainstream economics. Given the choice between $1,000 now and $1,100 next year, an individual may well take the money at once. But, asked to choose between $1,000 in 2025 and $1,100 in 2026, the same person might choose to wait a little longer for the larger sum.

Behavioural finance also shows the surprising extent to which people are swayed by the way that choices are framed. If, when they come to invest, most of the funds offered by the retirement plan are equities, then they will put most of their savings into stocks. If, on the other hand, most of the funds offered are bonds, then they will put most of their money into bonds.

What this suggests is that re-framing decisions about retirement saving through better-designed default rules can be surprisingly effective. Automatic enrolment puts the onus on the worker to opt out rather than to opt in. This is a change of form rather than substance. Yet in one American firm, this switch raised the enrolment rate into its 401(k) plan—the main vehicle for employer-

sponsored retirement saving—from 49% of newly eligible employees to 86%.

Save more today

Once workers are enrolled, pre-commitment can be used to raise saving rates. For example, Richard Thaler, of the University of Chicago, and Shlomo Benartzi, of the University of California, Los Angeles, have proposed a programme (called “Save More Tomorrow”) that makes use of the lower discount rates people apply to future saving decisions than to those in the present. A study of one firm by Mr Thaler and Mr Benartzi has shown that pre-commitment by workers to allocate a portion of their future pay rises to their pensions raised their average contribution rate from 3.5% of pay to 13.6% over a 40-month period.

The success of such private-sector schemes is prompting interest among government reformers too. New Zealand is leading the way. From April 2007, all new employees will be automatically enrolled into “KiwiSaver”, a retirement-saving scheme run by the tax authority, at a default contribution rate of 4% of pay. Workers have three weeks to opt out. If they stay in, they can take contribution breaks. They can save at a higher rate of 8% and choose a fund manager, although there will also be a default option for their investments.

Britain may follow New Zealand's lead. An independent commission reviewing the country's troubled pension system has been considering compulsory savings. However, the government is already taking steps to encourage automatic membership of company pension schemes. A more ambitious national programme, along the lines of New Zealand's reform, could be a politically alluring alternative to compulsion when the commission reports at the end of November.

There are potential snags. American companies that put new employees automatically into 401(k) plans generally choose a low contribution rate and a safe but low-return investment fund. This is because they want to avoid blame if things go wrong. If governments press for retirement saving by default, they will have to wrestle with this conundrum as well.

Furthermore, it is uncertain whether individuals will respond to a national scheme with the same readiness that they do to corporate plans. One interpretation of workers' responsiveness to employer-sponsored automatic enrolment is that they see it as an endorsement by the company—which is, of course, precisely the worry that many firms have about it. But the evidence, in Britain at least, is that employees in occupational schemes are much more likely to trust employers about pensions than they are governments.

These snags are unlikely to put politicians off. After all, in formulating pension policy they are also susceptible to the psychological flaws highlighted by behavioural economics. The temptation is always to procrastinate. Not the least of the attractions of automatic enrolment is that the policy addresses the politics as well as the economics of pension reform.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Motoring

Changing gear

Aug 25th 2005
From The Economist print edition

The self-driving car comes closer—but difficulties remain

IT IS an old chestnut—a car that drives itself—but General Motors, the world's largest car manufacturer, has become the latest company to claim to be building one. The car uses updated technology combined with several existing innovations and, according to the manufacturer, could be in production by 2008. But, while the technology takes some of the boring bits out of driving, it falls far short of an automatic taxi service and, anyway, various legal, technical and social barriers to its introduction remain.

The latest prototype currently being tested is based on an Opel Vectra, a mid-sized family car. It is undergoing evaluation near the headquarters of Adam Opel, General Motors' European subsidiary in Rüsselsheim, Germany.

The car has automatic cruise control of the sort fitted to many expensive cars such as Jaguars and BMWs. These use either radar or infrared beams fitted to the front of the car to measure the distance to the car in front. That distance is kept constant by automatic acceleration and braking.

But conventional automatic cruise control fails at speeds of less than 30kph (20mph). To circumvent this problem, the new car uses lidar—short for “light detection and ranging”—a measuring technology similar to radar but which uses laser beams rather than radio waves to measure distance and determine the speed of other vehicles. As light waves have shorter wavelengths than radio waves, the technology works at shorter distances and lower speeds. Indeed, the prototype has a distance-keeping system that will brake to a standstill, and move off again when the car in front moves.

This advanced version of automatic cruise control works alongside a system that corrects the car when it drifts out of its lane. Almost two million accidents a year worldwide are thought to be caused by drivers inadvertently changing lanes, frequently caused by drowsiness.

At present, only a few cars have lane-departure warning systems. In America, the technology is available on the FX45 model from Infiniti, Nissan's luxury car division. In Europe, the Citroën C4 and C5 models have it while, in Japan, some Toyota models are fitted with it. These systems use camera images or near-range radar to determine the direction and position of the vehicle in relation to lane markings. When the system recognises that a lane departure is imminent, it bleeps or flashes to alert the driver. Some systems even try to rouse the driver by making the steering wheel or the seat vibrate.

Again, the new car takes this a step further. A camera mounted on the windscreen behind the rear-view mirror gives a clear view of the road ahead, picking up the white lines even in poor visibility or where the paint has faded. The camera works in conjunction with laser beams mounted in the headlamp unit. There is a second advantage to using lasers in preference to radar: while they have a similar range, laser sensors have a significantly wider field of vision. Existing systems can see only straight ahead and the nearside lane marking. The prototype can see more than twice as widely as this. Together, the camera and laser sensors monitor the white lines and, if the car strays out of its lane, an electronic control unit attached to an electric power-steering unit corrects it.

The system is unlikely to have a smooth ride into production, however, despite achieving what General Motors says is a very high level of reliability during the development stage. Several obstacles stand in the way.

For example, self-steering cars are currently illegal in most European countries. Carmakers want the law changed to allow them, but they are also keen not to be held legally responsible for any accidents which result. Drafting legislation which would make it attractive for carmakers to introduce the technology, but still allow some recourse for those hurt if something goes wrong, could prove tricky.

In addition, most people relish driving. One reason why people feel safer in their cars than on public transport is because they are in control of the vehicle.

Moreover, whether in the stop-go traffic of the daily rush hour or on the motorway, the system relies on having a car in front that is travelling to the same destination. On the open road, the driver must drive.

Still, the technology appears affordable. General Motors says it is looking at a price of less than €1,500 ($1,830) to have it fitted to a new range of cars due in 2008.

European governments have set a target of halving road deaths by 2010. General Motors hopes that improved technology can help meet that goal.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SCIENCE & TECHNOLOGY

Stem cells

Embryos and ethics

Aug 25th 2005
From The Economist print edition

A new technique that could make therapeutic cloning less controversial

Get article background

AT THIS stage, it is merely a proof of principle. But, this week, researchers demonstrated a new way of creating so-called human stem cells tailored to an individual adult patient—potentially, therapeutic cloning—without creating or destroying human embryos.

Stem cells can transform themselves into the many different cell types that make up a body. Optimists hope they might eventually be used to generate replacement tissues and even entire organs for people who have lost theirs to disease or in an accident. At present, the technique most commonly used to create them is controversial because it involves experimenting on tiny clusters of cells that might, in other circumstances, grow into people.

The new method instead fuses an adult somatic cell—such as a skin cell, indeed, anything other than sperm or egg cells—with an existing embryonic stem cell. The fusion causes the adult cells to undergo genetic reprogramming, giving rise to cells that have the developmental characteristics of human embryonic stem cells. The stem cells can renew themselves indefinitely and transform themselves into many different types of cell.

However, the new technique will not immediately revolutionise medicine. First, a substantial technical barrier must be removed. The stem cells, created by Kevin Eggan and his colleagues at Harvard University, are abnormal. They contain chromosomes from both the adult somatic cells and the embryonic stem cells—that is, one set of chromosomes too many. The chromosomes from the adult somatic cells are the ones required to tailor treatment to an individual, minimising the chances of rejection by the patient's immune system. So the next stage on this route will be to figure out how to remove the embryonic stem-cell chromosomes while keeping the cell in its reprogrammed state.

The researchers stress that the most immediate benefit of their work will be an improved understanding of how to turn adult somatic cells into embryonic stem cells. Any practical application should be developed alongside existing techniques, they insist. The work is published in this week's *Science*.

However, if there is a way to remove the embryonic stem-cell chromosomes—and a group led by Yuri Verlinsky at the Reproductive Genetics Institute in Chicago says there is—then the new method would have several advantages over the established one. First, the number of women willing to go through the painful donation process limits supplies of human eggs. These are also technically difficult to work with. Embryonic stem cells—that is, from already fertilised eggs—by contrast provide an almost inexhaustible supply of easier-to-work-with material.

Admittedly, there is some sleight of hand when it comes to what the American people find ethically acceptable. While the new method neither creates nor destroys human embryos, it does use stem

cells that originally came from spare embryos created during infertility treatment. The creation of new embryonic stem cells was banned in 2001 by George Bush but work is permitted on the 60 or so stem-cell lines that existed before August of that year.

Next month, America's Senate is due to vote on a bill, already passed by the House of Representatives, that would extend federal funding to stem-cell research with newly created embryos. The scientists want more lines to gain more diversity and, in particular, to study stem-cell lines from discarded embryos which carry disease genes. There are also concerns that the constant generation of new stem cells could eventually damage any one line. Dr Eggan's work—which demonstrates, in principle, that therapeutic cloning might be possible without creating or destroying human embryos—might first appear to assist those, such as the president, who oppose such liberalisation. However, many scientists insist it is sorely needed.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SCIENCE & TECHNOLOGY

Pain perception

Mind tricks

Aug 25th 2005
From The Economist print edition

Suggesting medicine will help does result in physical changes in the brain

THE placebo effect, long considered nothing more than psychological suggestibility, does now appear to be genuine. Researchers this week demonstrated that when a person is treated with a substance which he or she believes to have the power to relieve pain, the brain can be tricked into setting in motion some of that pain relief.

While the Latin word placebo literally means “I shall please”, in the medical world it has become synonymous with apparent yet false consolation. Placebos—typically sugar pills—have been shown to alleviate all sorts of conditions, including ulcers, herpes and acne. The effect is especially strong in hard-to-pin-down illnesses and conditions such as depression (where up to half of people can get better on a sugar pill) and pain.

It is the latter that Jon-Kar Zubieta and his colleagues at the University of Michigan at Ann Arbor have now examined. They invited 14 men in their 20s into the laboratory to investigate what they claimed was a new medication that was thought to have analgesic effects. In fact, the medication was nothing more than a routine saline drip.

The pain, on the other hand, was authentic. The researchers made their subjects' jaws throb by pumping a solution into a nearby muscle, then asked them to rate the severity of their discomfort. The ratings, required every 15 seconds, were covertly used to keep pain levels constant. This was necessary because the pain was long lasting, and so the researchers needed to have a way of differentiating between what the body was doing naturally to counteract the pain and the contribution made by the false drug.

During the phase of the study where the volunteers were both in pain and receiving their “medication”, they reported suffering less. This was particularly interesting, given that they were receiving ever higher doses of the pain-making solution. (Indeed, in five cases, pain levels could not be maintained, as some volunteers reached the maximum dose they could receive before risking tissue damage.)

The fact that a placebo can lessen subjective measures of pain is not new. But Dr Zubieta also used positron emission tomography scans during the experiment to peer inside the men's brains. He compared the pain-only phase with the pain-plus-placebo phase.

What he found was that when the placebo was being administered—and the subjects were informed when it was—their brains released significantly more endorphins, the brain's natural painkillers. The researchers knew this because they had introduced a radioactive tracer that selectively binds to the same type of receptor in the brain, the mu-opioid variety, as the endorphins. More of the tracer was floating around unbound, suggesting the receptor sites were occupied by the endorphins. The work was published this week in the *Journal of Neuroscience*.

While the exact mental state that allows the placebo effect to kick in remains a mystery, the belief

that something will work seems to be a necessary ingredient. All of the participants were asked in advance how effective they thought the analgesia would be, and all of them believed it would help. The placebo effect could thus be attributed to a lifetime of being conditioned to believe in medicine. Alternatively, it could be tapping into something even bigger to do with belief—or even faith itself.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com SCIENCE & TECHNOLOGY

Statistical modelling

The wisdom of Hercules

Aug 25th 2005 | CAMBRIDGE, MASSACHUSETTS
From The Economist print edition

Using computer models to identify important American jurisprudence

IN A spate of wishful thinking, an American legal philosopher, Ronald Dworkin, once invented an imaginary but ideal judge, named Hercules, who had complete knowledge of every case ever decided. Hercules saw the law as a seamless web of past precedents, and could come to one right answer to decide any particular case. Of course, no actual judge possesses such a supernatural reasoning ability. Recently, though, scholars have built electronic maps of legal precedents that offer at least some semblance of the Herculean panorama of law.

One such map, of the network of links between United States Supreme Court cases, has been devised by Seth Chandler, professor of law at the University of Houston. Mr Chandler obtained some 26,000 opinions issued by the Supreme Court between the early 19th century and the present day. He treated each of these cases as a node and each citation from one case to another as a link. The result was a complicated web resembling a map of cities linked by dozens of airlines.

Picking one's list of indispensable Supreme Court decisions is a cherished parlour game among America's wonkiest lawyers. Mr Chandler has somewhat spoiled the fun by bringing maths into it. He found the most important opinions, at least judged by how many times they were cited, by working out which nodes were likeliest to fall on the shortest paths between two other nodes. Intriguingly, the cases mostly come from an advanced and esoteric subject—the law of federal jurisdiction—that addresses structural features of American government, such as the relationship between the states and the federal government and the relationship between the courts and Congress.

Although important, these cases are not, however, the cases that are most tightly bound into the network. To find the network's so-called main core, Mr Chandler repeatedly filtered out less-connected cases. He found that most of the cases in the main core interpret the American constitution's First Amendment, which protects freedom of speech and free exercise of religion. This, he suggests, means that deciding a free-speech case requires understanding a more complex body of precedents than deciding any other kind of case. By the same token, any First Amendment decision, right or wrong, will reverberate more readily through the law than a decision made in any other area.

Related work, by James Fowler, a political scientist at the University of California at Davis, and Sangick Jeon, a political-science student at the same place, shows how Supreme Court jurisprudence has developed over time. As they report in a recently completed paper, they, too, constructed an electronic network of linked Supreme Court opinions, this time using the majority opinions gathered from about 30,000 cases issued between the late 18th century and today.

Dr Fowler's network treated links between nodes as directional arrows rather than simple lines. He did this by separating opinions into two types: authorities, which are cited by many other cases; and hubs, which cite many other opinions. Using linear algebra to calculate all the cases' authority and hub scores, Dr Fowler arrived at his list of most important cases. He then charted which cases

were the most salient at each point in time.

He found that, before the American civil war, the most authoritative cases involved freedom of contract. After the war and until the end of the 1930s, when Roosevelt's New Deal was enacted, these were gradually replaced by cases dealing with the balance of power to regulate commerce between Congress and the states. Finally, around the second world war, as the Supreme Court shifted its focus to civil liberties, the most important cases became those concerning freedom of speech. According to the model, civil rights opinions remain ascendant today.

Dr Fowler's model shows that, until the end of the 18th century, the Supreme Court's opinions rarely cited previous Supreme Court opinions. This is not all that surprising since there were so few. In the 19th century, however, the average number of citations to previous cases started climbing sharply and so did the average number of citations to those cases by later Supreme Courts. For a while, Supreme Court justices liked to cite opinions with many citations in them. By 1950, an average opinion cited about 15 other opinions, and each opinion was itself cited by roughly the same number.

The trend reversed, however, between 1953 and 1969, when the controversial Earl Warren served as Chief Justice of the United States. As that Court embarked on its activist, and mostly liberal, course, there was a precipitous drop in the number of citations it made, which implies that the Warren Court was less respectful, or perhaps just less interested, in precedent.

When subsequent Supreme Courts turned to the right, the number of citations continued to fall, implying they were ignoring the Warren Court precedents. Under William Rehnquist, the current chief justice, this trend has continued apace, reaching an average of a mere five citations by 2002. Will the Rehnquist Court's own opinions suffer the same fate?

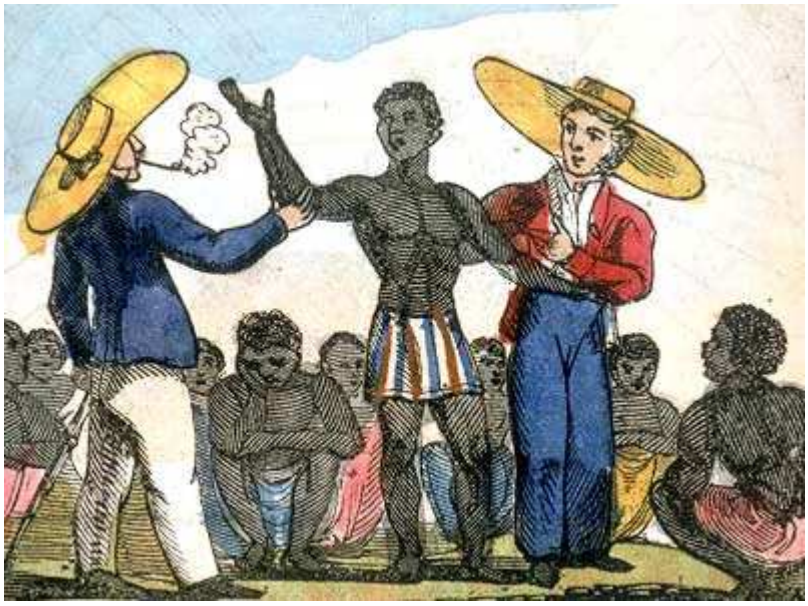
Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BOOKS & ARTS

Slavery in America

Black and white—and red all over

Aug 25th 2005
From The Economist print edition



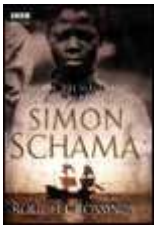
Britain's best-known historian examines a turning point in the history of slavery—and the fight for American independence

Get article background

NATIONS need luck in their historians, as with everything else, and in Simon Schama, Britain—not to mention America, where he lives and works—has hit the jackpot. It must have been tempting to follow his panoramic "A History of Britain", the three volumes of which dominated the bestseller lists in 2000 and beyond, and made him into Britain's national storyteller, with more from the lucrative mainstream. The book trade would surely have opened up acres of space for Mr Schama on Victoria, on Churchill, on Lincoln.

But he has done no such thing. On the contrary, Mr Schama has deployed his celebrity in the service of an episode which did not even rate a footnote in his earlier work—the noble but half-baked attempt to plant a colony of freed American slaves in Sierra Leone at the end of the American war of independence in 1776. Anyone who felt that his "A History of Britain" skipped a little lightly over the empire's adventures overseas (leaving some ugly national skeletons unrattled in the process) now knows why. Like a stealthy chef, Mr Schama was pocketing truffles for his own later use.

Rough Crossings: Britain, the Slaves and the American Revolution
By Simon Schama



BBC Books; 407 pages; £20. To be published in America in May 2006 by HarperCollins.

Buy it at
Amazon.co.uk

He was also returning to the form of vibrant and cosmopolitan narrative which entitled him to write “A History of Britain” in the first place. His first book, “The Embarrassment of Riches” (1987), was a meticulous and witty account of Holland's artistic golden age in the 17th century; “Citizens”, his next work, was a storming narration of the French revolution, a bloodbath which generations of abstract ideologues had managed to drain of blood. Now, once again, his articulate intelligence plays elegantly over a saga full of grim twists. There are heroes and cowards, fools, chancers and baffled victims. The doomed migration from Nova Scotia to Africa (just as resonant as the Australian odyssey described by Robert Hughes in “The Fatal Shore”) is gripping and vivid. It stinks of putrid flesh and maggots, tar and rope, chains and broken promises.

The story of the freed American slaves is not quite unknown, but neither is it well known. British history has rarely dwelt on the loss of its colonies across the Atlantic (preferring to celebrate victories), and until recently has been happy to draw a veil over the horrors of slavery (“ghastly business—less said about it the better”). But this terrific story straddles some very large contemporary concerns: the roots of transatlantic racism, and the ugly wrench that inspired the special relationship.

At the height of the conflict, Britain guaranteed freedom to any slave who fought for the king against George Washington's slave-owning rebels. And in 1772, in London, Lord Mansfield, nudged by the advocacy of Granville Sharp, an abolitionist, judged that Africans could not be transported against their will. It sounded good. Thousands of slaves, lacking a better offer, joined the king's cause.

It goes without saying that Britain's pledge was issued with only token expectation that it would need to be honoured—victory would surely render it irrelevant. But military incompetence and American resolve turned it into a disquieting political reality. After much smudging, a liberal haven—an 18th-century African Zion—was marked out in Sierra Leone. African-Americans began to go “home”.

It was a disastrous enterprise from the start; what began as a rescue mission was later seen as a “racist deportation”. As revolutionary echoes from France made London's potentates tremble, cargoes of ex-slaves were dumped on a malarial strip of impossible land. Some were seized as slaves again; others, in an even more horrid reverse, became slavers themselves. It was the only business they knew.

With dash and cunning, Mr Schama follows his leading characters into the shadow that falls across his story. “Histories never conclude,” he writes. “They just pause.” If it is true that history is not the past—merely what we have now instead of the past—then we must tip our caps to Mr Schama for reminding us of the grotesque events whose scars still sting today, more than a century afterwards.

Rough Crossings: Britain, the Slaves and the American Revolution.
By Simon Schama.
BBC Books; 407 pages; £20. To be published in America in May 2006 by HarperCollins.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Asia Minor

Causes of catastrophe

Aug 25th 2005
From The Economist print edition

WHATEVER befell the Queen of Cities, 553 summers ago, it was evidently a turning-point in world affairs. But to paraphrase Lenin's question, who exactly prevailed over whom?

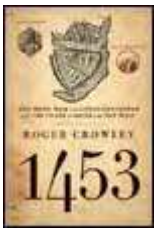
The bare facts are not in doubt. On May 29th 1453, a 21-year-old Ottoman sultan, later known as Mehmet the Conqueror, took the ancient capital of the Byzantine, or eastern Roman, empire. By blockading the Bosphorus, spiriting ships into the supposedly impregnable Golden Horn and pounding the walls with cannon, Mehmet fulfilled the dream of many previous besiegers, going back to the early Islamic era. Constantine XI, the last Christian emperor, died in the defence.

In Turkish history books, the conquest of Istanbul is presented as a heroic feat by a visionary leader, who cast aside the caution of his elders and opened a brilliant new chapter in history. It is argued that the city was badly depopulated, and the civilisation it had spawned had become moribund: only after a change of master was the great conurbation on the Bosphorus able to rediscover its natural role as the epicentre of a world empire.

For Constantinople's defenders and their Greek or philhellenic heirs, the “fall of the city” was a tragedy whose sharpness has never ceased to be felt: the end of a civilisation whose art, architecture and world view were deeply infused with Christian doctrine and Hellenic thought—with spectacular aesthetic results, whatever you might think of Byzantine politics.

A comparatively dispassionate—yet still gripping—view of the drama of 1453 is offered by Roger Crowley, an ex-teacher with a pedagogue's gift for anticipating queries and injecting life into an old, if perpetually fascinating, story. One of the hardest questions, as he suggests at the outset, is how to describe the warring parties. Were they “Greeks” and “Turks” in the modern sense? Of course not, because the nation-state had not been invented. On the attacking side, the best troops were Slavic; so, it seems, were at least half the genes of Mehmet; his feisty commander, Zaganos Pasha, was of Greek origin. The defenders included Venetians, Catalans and above all Genoese. It is less misleading, Mr Crowley argues, to define the belligerents in religious terms: on one hand, a “Christendom” whose split between a Catholic West and Orthodox East had fateful results; on the other, the realm of Islam, whose passion for holy war had been reinvigorated by the arrival of the Ottomans in Anatolia.

1453: The Holy War for Constantinople and the Clash of Islam and the West
By Roger Crowley



Hyperion; 304 pages; $25.95. Published in Britain as "Constantinople: The Last Great Siege, 1453"; Faber and Faber; £16.99

Buy it at
Amazon.com
Amazon.co.uk

The Mechanism of Catastrophe: The Turkish Pogrom of September 6-7, 1955, and the Destruction of the Greek Community of Istanbul
By Speros Vryonis junior

Greekworks.com; 664 pages; $75

Buy it at

The book mixes intriguing details of military history with rich references to the religious imagery that influenced both parties. It describes how morale on the defending side was fatally affected by apparent portents from heaven—such as the incident when a famous icon of the Virgin Mary, revered as a protectress of the city, fell into the mud during a procession. Odd meteorological phenomena, apparently linked with a volcano thousands of miles away, were seen by both sides as omens.

Amazon.com
Amazon.co.uk

But for all the power of religious symbols and rhetoric, the conflict between the Christian and Muslim worlds was not as total, or as simple, as the discourse of the time might suggest. Notionally Christian powers were willing to ally with the Ottomans against their fellow Christians. As for Mehmet, he selected a conservative (ie, anti-Roman) theologian as patriarch and reaffirmed the prelate's authority over all the empire's Christian subjects. Before 1453, it seemed that the Orthodox Christians of Constantinople might yield some doctrinal ground to Rome in order to secure military aid from the Catholic West. But the monastics, and above all the people of the city, rejected compromise, even if this refusal sealed their military fate. After 1453, the Ottoman rulers played an important part in making sure that their Christian subjects remained on an eastern Orthodox, rather than Roman Catholic, track.

So whatever it implied, the Ottoman victory in 1453 did not mean an end to the practice of Orthodox Christianity either in the great city itself or the wider region. A more nearly terminal moment came almost exactly five centuries later. In September 1955, at a time of tension over Cyprus, well-orchestrated mobs ran amok through the Greek churches, shops and cemeteries of the city, desecrating, looting, maiming and in a few cases killing. Speros Vryonis, a Greek-American scholar of Ottoman history, has devoted many years to documenting this episode—along with the diplomatic legerdemain that was used to limit its consequences. The most upbeat thing about this sobering book is the fact that two Turkish scholars—albeit American-based ones—have endorsed it.

In diplomatic theory, modern Istanbul should have been spared this kind of horror. The Lausanne treaty of 1923, a founding document for the modern states of Turkey and Greece, had exempted Istanbul from the Greek-Turkish population exchange. During the early 1950s, and for a brief halcyon period in the early 1960s, Greek Orthodox businessmen with deep roots in the city were thriving once more. But in the end, modern statehood proved more harmful to Greek-Turkish and Christian-Muslim co-existence than traditional theocracy (including Ottoman theocracy) had been. That is thought-provoking for anyone who assumes that over time, the world is becoming more secular, and from a secular viewpoint, more “sensible”.

1453: The Holy War for Constantinople and the Clash of Islam and the West.
By Roger Crowley.
Hyperion; 304 pages; $25.95. Published in Britain as “Constantinople: The Last Great Siege, 1453”; Faber and Faber; £16.99

The Mechanism of Catastrophe: The Turkish Pogrom of September 6-7, 1955, and the Destruction of the Greek Community of Istanbul.
By Speros Vryonis junior.
Greekworks.com; 664 pages; $75

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BOOKS & ARTS

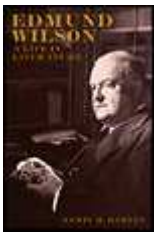
Literary criticism

Life of the pen

Aug 25th 2005
From The Economist print edition

ALTHOUGH Edmund Wilson in his day was one of the foremost writers and critics in America, he is remembered now, if at all, more as a creature of fable than a flesh-and-blood author. He belonged to a literary species that, many believe, no longer exists: the free-ranging generalist who wrote seriously about books and ideas for the common reader without dumbing down. That picture of a glowing past and diminished present is more than a touch nostalgic. So it is good to have a chronicle of Wilson's life that gives him full due without building up false contrasts.

Edmund Wilson: A Life in Literature
By Lewis M. Dabney



Farrar, Straus and Giroux; 656 pages; $35

Buy it at
Amazon.com
Amazon.co.uk

His hugely productive life stretched from the 1920s to the 1970s. Besides a mass of journalism, hundreds of reviews and five volumes of gossipy journals packed with sexual detail, he published dozens of books. Two are classics: “To the Finland Station” (1940) is the story of Marxism told through the lives of its thinkers, and “Patriotic Gore” (1962), a highly original study of the books, songs and oratory of the American civil war.

He was born in 1895 to a prosperous lawyer and an attentive but difficult mother. At prep school and Princeton he shone more as a bookish aesthete than a scholar. When America entered the war in 1917, Wilson, who was a near-pacifist all his life, signed up as a hospital orderly but was later transferred into an intelligence unit. Back from France, he began his 50-year record of the literary life that some think his biggest achievement. Lewis Dabney, a long-time friend, who edited the final volume of those journals, relies heavily on them and on Wilson's letters.

His enthusiasms were boundless. He read widely in many languages. Scoffers picked at his mistakes, but he learned, among other tongues, Russian, Norwegian, Hebrew and Hungarian. As a young critic, he celebrated James Joyce, T.S. Eliot and other early modernists. In the 1930s, he became political, treating books as tools of social progress. Later he changed again, turning from the contemporary scene to the past. His new interests included American Indians, his family roots in upstate New York and, though irreligious to his dying breath, early Christian sects.

Proudly, he never held a university post. Staff jobs at *Vanity Fair*, the *New Republic* and the *New Yorker* seldom lasted. Mostly he was an independent man of letters, in other words a freelance, with all its travails. An eminence at 75, he is still complaining to William Shawn, the then editor of the *New Yorker*, which had held a piece of his, “I write my articles as a journalist in the expectation of getting printed fairly promptly.”

As a critic, Wilson distrusted systems and founded no school. Unlike the New Critics, who were dominant in his day, he was not a close reader of the written word. Rather he followed an earlier, biographical tradition, thinking himself imaginatively into writers' lives. He died, in 1972, too early to be condescended to by a new generation of theory-minded professors.

Unlike many cosmopolitans, Wilson never neglected his own country. He championed the American classics, though not in university editions, with their endless emendations and footnotes. Instead he campaigned for reliable, well-produced texts for everyday readers. After his death, with money from the Ford Foundation and the National Endowment for the Humanities, that dream bore fruit in the splendid Library of America.

Wilson's output is the more impressive when you consider that he was often drunk, had several crack-ups and devoted almost as much effort to bedding—and then clinically writing about—his mistresses and casual pick-ups as he did to his work. Two early marriages fell apart. His third, to Mary McCarthy, an author in her own right, who called him the “Minotaur”, was stormier still. The fourth, to Elena Mumm, the Russian-German daughter of a Rhineland winemaker, brought sexual happiness and a degree of domestic order.

Wilson tended to encyclopedism and nit-picked with those who knew more on a subject than he did: “In the Middle Ages, you fail to mention Hrotswitha, the German 10th-century nun”. His dispute with Vladimir Nabokov about translating Pushkin, in which Wilson lectured the St Petersburg-born author on Russian verse rhythms, put an end to their friendship. Even in English, Wilson's ear for poetry was unsure. As a *New Yorker* correspondent after 1945 his reports from abroad were more vivid than penetrating. His pugnacity extended to personal life. When drunk, he slapped women around. Though he learned better later, as a young man he shared the prejudices of his background, stigmatising Jews and barely seeing black people.

Wilson nevertheless remains a formidable figure: indignant and zestful by turns, always sure of his judgments, tough like Yankee granite. In photographs as an old man, his jaw, toughened by talk, looks like the muzzle of some ancient predator. When the Kennedys asked him to a White House dinner for writers and artists in 1962, Robert Lowell, a fellow guest, told Wilson afterwards that he was the only one who did not fawn.

Mr Dabney does not place Wilson among other writers. But an essayist who comes continually to mind as you read Wilson's life is George Orwell. Wilson did not have Orwell's gifts on the page. But their quirky, anti-establishment temperaments were alike. Wilson, like Orwell, was a lukewarm socialist who drifted in the 1940s towards a form of conservative anarchism. Neither could reconcile themselves to mass culture and mass politics. Both broke with almost every group that begged them to belong. Both left the literary metropolis to write on their own, Orwell to the Scottish Isles, Wilson to his old family home in rural New York state at the edge of the Adirondack Mountains. They only sounded self-assertive and dogmatic. Their real lesson to readers was to think for themselves.

Edmund Wilson: A Life in Literature
By Lewis M. Dabney
Farrar, Straus and Giroux; 656 pages; $35

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BOOKS & ARTS

The history of mathematics

Count and die

Aug 25th 2005
From The Economist print edition

THE romantic figure at the heart of Mario Livio's fascinating book about mathematical equations and symmetry is a brilliant Frenchman, Evariste Galois, who died in 1832 at the age of only 20.

Galois's work was the culmination of an ancient quest to solve ever more complicated mathematical equations. Simple linear equations (such as $2+x=5$) were routinely solved in ancient Babylon. Quadratic equations (with an x^2) are a bit harder, but the formula for solving them was discovered by medieval Arabic mathematicians.

Cubic equations are a different matter. Mr Livio describes the feverish search for a formula in Renaissance Italy, with mathematicians clashing in public equation-solving contests. Both the cubic and the quartic equations were finally solved in the 1540s by Gerolamo Cardano and Ludovico Ferrari, although not without a spectacularly brutal scientific feud complete with accusations of plagiarism and bad faith.

Clearly, the quintic was next, but progress was remarkably slow. Only in the 19th century did the answer become clear, when Niels Henrik Abel, a Norwegian mathematician, showed that the quintic is insoluble. While many individual quintic equations can be solved, there is no simple formula that deals with them all.

The Equation That Couldn't Be Solved: How Mathematical Genius Discovered the Language of Symmetry
By Mario Livio

Simon & Schuster; 368 pages; $26.95

Buy it at
Amazon.com
Amazon.co.uk

By developing a general theory of equations, Galois provided the definitive solution to the problem. Earlier mathematicians had concentrated on one type of equation at a time. Instead of looking for individual solutions of an equation, Galois turned his attention to the symmetries in its solutions. As Mr Livio explains, Galois's achievement was to show that the structure of these symmetries determines whether the equation has a simple solution. This explained at a stroke why the quintic is insoluble—there are too many symmetries—and created a new way of understanding mathematical equations.

The idea of symmetry is one of the book's recurring themes. Mr Livio describes many types of symmetry, including the sixfold rotational symmetry of snowflakes (which so fascinated the astronomer Johannes Kepler that he wrote an entire treatise on “The six-cornered snowflake”). He also writes passionately about the role of symmetry in human perception and the arts, and the fundamental importance of symmetry in the laws of physics.

The centrepiece of the book is Galois's death. The night before he died, the young mathematician frantically scribbled an account of his unpublished discoveries, at one point writing the words “I have no time” in the margin. The following morning, fatally wounded by a pistol shot in a duel, he uttered his last words to his brother: “Don't cry, I need all my courage to die at 20.”

The Equation That Couldn't Be Solved: How Mathematical Genius Discovered the Language of Symmetry
By Mario Livio
Simon & Schuster; 368 pages; $26.95

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economist.com BOOKS & ARTS

Photography

Poetry in black and white

Aug 25th 2005
From The Economist print edition

A Hungarian who shot from the heart

ANDRE KERTESZ (1894-1985) always insisted he was born to be a photographer. But a fascinating travelling retrospective of the work of this Budapest-born artist shows that his path turned out to be far more circuitous than he had expected—and all the more interesting for it.

Kertesz's mother gave him his first camera as a school-leaving present in 1912. From then on, it would be a semi-permanent appendage to the awkward Hungarian youth who found it hard to express his ideas in any other way. He packed his camera in his knapsack when he was conscripted into the first world war, snapping not the battles but soldiers at moments of rest and play. When he returned to Budapest in 1918, he delighted in photographing the antics of his handsome brother Jeno—famously captured in flight as Icarus jumping from a cliff—as well as the studios and work of his circle of avant-garde artist friends.

In an age when photography was not yet an established profession, the unconfident Kertesz dabbled at a series of day jobs—first as a bank teller and then as a beekeeper—until his girlfriend, Elisabeth Salamon, an artist, insisted he leave Budapest and seriously try his hand at photography. In 1925 he moved to France. Poor and lonely, he created some of the most poetic images of Paris ever captured on film. Kertesz had the good fortune to arrive at a time when illustrated magazines were desperate for new pictures, and when artists were arriving in Paris in droves, turning the city into a hub of inspiration. Photography too was changing. Leica had recently invented the first hand-held camera, with a small, quick shutter speed that could capture fleeting moments. By bringing the camera to the eye, rather than holding it at the waist, photographers like Kertesz were able to wander through the city snapping pictures with ease.

Although he regarded himself as an amateur—"forever a beginner who discovers the world again and again"—Kertesz began to earn a living from photography. In 1934, he published "Paris Vu par Andre Kertesz", now a classic, which showed the city of light in shades of grey. His eye would focus on a lone figure on a bridge or empty chairs in the Luxembourg gardens that seem to be conversing, or on the extraordinary view of the Louvre seen through the clock face of the Académie Française. His best images combine sadness and beauty. In the "Muguet Seller", a crippled war veteran implores a young woman to buy his flowers as she rushes past him into the Metro. Each picture could be a poem, so infused is it with feeling and clarity of vision.

Kertesz found his calling in Paris, befriending fellow Hungarians such as Brassaï, a photographer, and a Dutch artist, Piet Mondrian, whose apartment he famously shot. He also found love—Elisabeth came from Budapest and married him. Then in 1936, lured by a job offer from a New York photo agency and alarmed by rising anti-Semitism in Europe—both Andre and Elisabeth were Jewish—they emigrated to America. But Kertesz was ill-suited to commercial and fashion photography, which he called "slave work"; he struggled with English, missed the support of his artist friends and never lost his *mittel*-European melancholy. Luckily for viewers, his feelings of disorientation showed up on film in such moving images as "Lost Cloud", where a tiny floating puff of white seems out of place alongside a New York skyscraper. He considered this a self-portrait,

recording in his diary that he was “lost and didn't know which way to go”. Kertesz always felt uncomfortable in New York. MOMA's vibrant photography programme ignored him, while Conde Nast's influential editorial director, Alexander Liberman, found his images too sentimental and out of step with the more flamboyant, upbeat photography of the 1950s.

In 1962, at the age of 68, Kertesz left his job at *House and Garden* magazine. He began to shoot images of Washington Square Park from his apartment window that seemed to echo his images of the Luxembourg gardens of decades earlier and captured odd, discordant moments of urban life that finally earned him a solo show at MOMA in 1964. When Elisabeth died in 1977, he turned to his camera to express his grief, composing poignant, slightly surreal still-lives reflecting their life together. Perhaps the saddest of these is the ghostly image of glass heads entwined in a window with the twin towers in the background. “You don't see the things you photograph,” Kertesz said, “you feel them”.

Whereas the work of other great photographers, such as Henri Cartier-Bresson or Robert Capa, is much more about the subject, Kertesz's camera always searched for a subject where he could express his feelings. His aim, he said, was “to give meaning to everything about me with my camera, to make photographs as by reflection in a mirror, unmanipulated and direct as in life.” As this retrospective shows, he succeeded in spades.

“Andre Kertesz” is at the Los Angeles County Museum of Art until September 5th and then at the International Centre for Photography in New York from September 16th until November 27th.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Obituary

Brother Roger

Aug 25th 2005
From The Economist print edition

Reuters

Roger Schutz, founder of Taizé, died on August 16th, aged 90

DEEP quiet was what first drew Roger Schutz to Taizé. The young Swiss theology student, climbing off his bicycle one summer day in 1940 after riding a strenuous 70 miles north from Geneva, found himself in the wooded hills and valleys of *la France profonde*. A few sandstone houses, some unlived in, made up the village. The road was unsurfaced, and there was no telephone; the world did not come through here. No priest had been resident since the Revolution. He might have pushed on, but an old woman offered him a meal and pressed him to stay with them. “We are lonely,” she told him.

This lost corner had not always been so silent. Ten minutes away lay the ruins of the great Benedictine abbey of Cluny, which had once been full of melody and chant sung to the glory of God. Taizé, on that same “inspired hill”, still echoed with what Shelley once called “the memory of music fled”. It was the ideal place for Brother Roger, as he soon became, to found an order whose religious life was based profoundly on the principles of music and silence.

Establishing a monastic order is always a struggle, not least in the 20th century, and in wartime, and for a Protestant pastor's son whose knowledge of the subject had been gained from his theology studies in Lausanne. He meant, at first, to be a writer. But his father's mysticism infected him; he decided on the religious life, and burned his first published book in the fireplace of the broken-down house he bought in Taizé.

In its first years, the house was mostly a hostel where Jewish refugees were offered soup and a

bed on their way through to safety. Brother Roger, a classically trained musician brought up in a household of singing and piano-playing, wanted music at its centre, but not yet. Out of respect for his guests, he would go away and sing Divine Office in the woods, restoring sacred music to the landscape again.

From these humble, almost naturalistic, beginnings sprang an extraordinary Christian revival. On the day Brother Roger died, 2,500 people were in the church in Taizé. More than 100,000 visitors now come each year, so many that they stay in tents on the surrounding slopes. The order itself has 120 monks, some in the monastery and some, as Brother Roger always wanted, living with the poor in the world, in the slums of Kolkata and Manila and New York. Taizé prayer-groups meet in every continent.

Leaders of the established Christian churches—popes, metropolitans, archbishops of Canterbury—would visit with amazement. They could not understand how, as the world turned unremittingly secular and their own churches dwindled down to congregations of old women, one monastery in France could be crammed with the noisy, enthusiastic, back-packing young. Pope John Paul II called Taizé “a spring of water”. Little like it could be found in the Vatican's gilded halls.

A pillar of fire

Brother Roger, too, was perplexed by what had happened. His monastery had never recruited, advertised or sold itself. It was never—he insisted it should never be—a “movement”. He only knew that, from 1959 onwards, young people had started to come to Taizé, and the word had spread. Some said that he himself, a tiny man with a luminous, sweet smile, was the reason they came. He doubted it but, just in case it was true, granted few interviews and kept apart from the theological wranglings of the day. Taizé was, and always had been, resolutely ecumenical, taking brothers from all Christian sects and basing itself on love, reconciliation and forgiveness; there was much space for searching there, but none for dogmatism. Hence its attraction for the alienated souls of the modern age.

Brother Roger offered, to anyone who wanted it, a way to the spirit of the risen Christ through light, music and silence. The services he devised at Taizé were often held by candlelight. The music, based on ancient mantras but developed by him, was simple melodic phrases sung over and over again until they became a meditation, sometimes continuing under and through the prayers in what he called “a pillar of fire”. In between these chants would come long spells of silence when, as Brother Roger put it, “with a childlike trust, we let Christ pray silently within us.”

Listening, rather than preaching, was the essence of Taizé. Christian leaders would have done well to imitate that secret. As it was, churches all over the Christian world borrowed the Taizé songs. Fame forced Brother Roger to worry about copyright and piracy; it also gave him critics. For some he was too Catholic, allowing masses and observing the Marian feasts. For others he was too timid, championing the oppressed but disbanding branches of his order when they became politically violent. Brother Roger ignored all this. Moral and political reform, he believed, would come only when bitterness and resentment vanished from human hearts.

He was attending the evening service when a deranged woman cut his throat, killing him almost instantly. He died in the midst of the reviving music he had brought to Christianity. Had anyone asked why, he would have gently reminded them that he did not leave a silence that was empty.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 25th 2005
From The Economist print edition

The **oil price** rose again. A barrel of West Texas Intermediate, a benchmark crude, traded above $67. This latest rise was prompted by a sharp drop in American petrol stocks, a hurricane threat to oil rigs in the Gulf of Mexico and political uncertainties in Iran, a big oil exporter.

America's housing market sent mixed signals this week. New home sales jumped by a larger-than-expected 6.5% in July, to reach an annual rate of 1.41m homes. Sales of existing homes, on the other hand, fell by 2.6% in the same month, slowing to an annual rate of 7.16m. On the supply side, the inventory of existing homes rose by 2.6% to 2.75m, the highest level since May 1988. The supply of new homes likewise climbed by 1.8% in July, or by 15% compared with one year ago.

New orders for **American** durable goods plunged by 4.9% in July, a much steeper drop than expected. Excluding the volatile transport sector, orders fell by 3.2%. Another indicator of manufacturing activity, the Philadelphia Fed's business activity index, increased from 9.6 in July to 17.5 in August, its highest level since April.

Industrial output in the **euro area** rose by 0.3% in the year to June. Industrial orders were also up by 3.1% in June, or 4.9% over the past year, driven mainly by demand for transport equipment and electronics. The euro area's trade surplus in goods fell to €6.5 billion in June from €8.3 billion a year ago.

Spirits are high in **Germany**. According to the latest ZEW survey of economic expectations, analysts and investors are more optimistic about economic activity in the next six months. The index jumped from 37.0 last month to 50.0 this month, well above its historic average of 34.3 and its highest reading since March 2004.

Japan's benchmark Nikkei stockmarket average closed above 12,500 this week, its highest in more than four years. An improving economy and polls showing growing support for the reformist prime minister, Junichiro Koizumi, ahead of September's election are lifting markets.

British retail sales volumes fell by 0.3% in July, but increased by 1.8% from a year ago.

Sweden's central bank, the Riksbank, kept its key interest rate unchanged at 1.5% this month, after cutting it by 0.5% last June.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Output, demand and jobs

Aug 25th 2005
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2005	2006	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q1	+ 2.8	+ 2.3	+ 3.1	+ 1.2	Q1	+ 1.6	Q2	5.0	Jul	5.7
Austria	+ 2.0	Q1	+ 0.8	+ 1.9	+ 2.0	+ 5.6	May	+ 3.8	May	5.1	Jul	4.9
Belgium	+ 1.4	Q2	+ 1.2	+ 1.2	+ 1.9	– 1.4	Jun	+ 4.3	May	13.4	Jul†	12.8
Britain	+ 1.7	Q2	+ 1.5	+ 2.1	+ 2.1	– 1.9	Jun	+ 1.8	Jul	4.7	Jun††	4.8
Canada	+ 3.3	Q1	+ 2.3	+ 2.7	+ 3.0	+ 1.8	May	+ 5.6	May	6.8	Jul	7.1
Denmark	+ 0.8	Q1	+ 0.6	+ 2.0	+ 2.2	+ 1.5	Jun	+ 7.6	Jun	5.8	Jun	6.5
France	+ 1.2	Q2	+ 0.4	+ 1.5	+ 1.9	– 0.4	Jun	+ 0.8	Jun	10.1	Jun	10.0
Germany	+ 0.6	Q2	nil	+ 1.1	+ 1.3	+ 2.8	Jun	+ 1.9	Jun	11.6	Jul§	10.6
Italy	+ 0.1	Q2	+ 2.8	– 0.1	+ 1.2	– 3.0	Jun	– 0.3	May	7.8	Mar	8.2
Japan	+ 1.4	Q2	+ 1.1	+ 1.7	+ 1.7	+ 0.2	Jun	+ 3.6	Jun	4.2	Jun	4.6
Netherlands	+ 1.3	Q2	+ 4.9	+ 0.4	+ 1.5	– 0.1	Jun	– 2.3	May	6.7	Jul**	6.5
Spain	+ 3.4	Q2	+ 3.6	+ 3.1	+ 2.8	– 0.2	Jun	+ 1.4	Jun	9.8	Jun	11.1
Sweden	+ 2.2	Q2	+ 2.4	+ 1.9	+ 2.6	+ 2.6	Jun	+ 9.6	Jun	7.1	Jun†	5.8
Switzerland	+ 0.8	Q1	+ 0.2	+ 0.8	+ 1.5	– 0.3	Q1	+ 3.2	Jun	3.5	Jul†	3.6
United States	+ 3.6	Q2	+ 3.4	+ 3.6	+ 3.3	+ 3.0	Jul	+ 7.6	Jun	5.0	Jul	5.5
Euro area	+ 1.2	Q2	+ 1.0	+ 1.3	+ 1.7	+ 0.3	Jun	+ 0.9	Jun	8.7	Jun	8.9
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 2.0	Q1	+ 0.5	na	na	– 9.8	Jun	+ 5.8	Jun	7.3	Jul†	7.8
Greece	+ 3.5	Q2	na	na	na	– 2.3	Jun	+ 5.3	May	9.9	Mar	10.8
Iceland	+ 2.9	Q1	na	na	na	na		na		2.1	Jun†	3.1
Ireland	+ 2.4	Q1	+ 1.0	na	na	+ 0.4	Jun	+ 3.4	Jun	4.3	Jul	4.4
Luxembourg	+ 3.1	Q1	na	na	na	+11.2	May	– 1.8	Jun	4.4	Jun	3.9
New Zealand	+ 1.9	Q1	+ 1.5	na	na	+ 3.5	Q4	+ 5.9	Q2	3.7	Q2	4.0
Norway	– 0.8	Q1	+ 2.2	na	na	– 2.7	Jun	+ 3.7	Jun	4.7	Jun‡	4.5
Portugal	+ 0.1	Q1	+ 0.8	na	na	+ 1.2	Jun	+ 6.6	Jun	7.2	Q2†	6.3

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ††Apr-Jun; claimant count rate 2.8% in Jul. §EU harmonised rate 9.2% in Jun. **May-Jul. ‡April-June

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Prices and wages

Aug 25th 2005
From The Economist print edition

% change on year ago

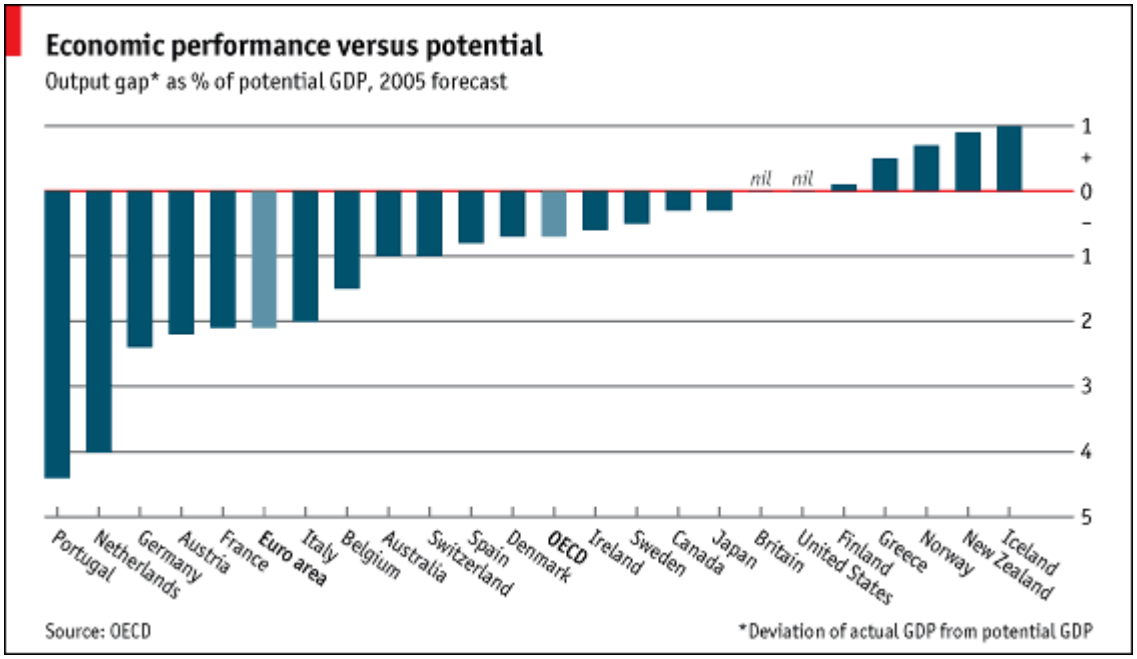
	Consumer prices latest		Consumer prices year ago	The Economist poll consumer prices forecast 2005	The Economist poll consumer prices forecast 2006	Producer prices latest		Producer prices year ago	Wages/earnings latest		Wages/earnings year ago
Australia	+ 2.5	Q2	+ 2.5	+ 2.7	+ 2.6	+ 6.9	Q2	+ 2.8	+ 5.8	Q2	+ 3.0
Austria	+ 2.2	Jul	+ 2.2	+ 2.1	+ 1.7	+ 1.1	Jul	+ 6.0	+ 2.3	Jul	+ 2.0
Belgium	+ 3.1	Jul	+ 2.4	+ 2.3	+ 1.8	+ 1.8	Jul	+ 5.5	+ 2.6	Apr	+ 2.3
Britain	+ 2.3	Jul*	+ 1.4	+ 1.9	+ 1.9	+ 3.0	Jul	+ 2.6	+ 4.2	Jun†	+ 4.2
Canada	+ 1.7	Jun	+ 2.5	+ 2.1	+ 2.2	+ 0.2	Jun	+ 7.0	+ 1.1	May	+ 3.9
Denmark	+ 2.0	Jul	+ 1.3	+ 1.5	+ 1.7	+ 4.7	Jul	+ 2.7	+ 3.1	Q1	+ 3.3
France	+ 1.7	Jul	+ 2.3	+ 1.8	+ 1.5	+ 2.9	Jun	+ 2.2	+ 2.9	Q2	+ 2.8
Germany	+ 2.0	Jul	+ 1.8	+ 1.6	+ 1.3	+ 2.5	Jul	+ 3.9	+ 0.9	Jun	+ 1.4
Italy	+ 2.1	Jul	+ 2.3	+ 2.1	+ 1.9	+ 3.7	Jun	+ 3.2	+ 3.0	Jun	+ 3.3
Japan	– 0.5	Jun	nil	– 0.1	+ 0.3	+ 1.5	Jul	+ 1.7	– 0.1	Jun	+ 1.8
Netherlands	+ 1.6	Jul	+ 1.1	+ 1.4	na	+ 4.9	Jun	+ 3.6	+ 0.8	Jul	+ 1.0
Spain	+ 3.3	Jul	+ 3.4	+ 3.1	+ 2.8	+ 4.6	Jul	+ 4.1	+ 2.5	Q1	+ 3.2
Sweden	+ 0.3	Jul	+ 0.7	+ 0.5	+ 1.3	+ 3.2	Jun	+ 1.5	+ 1.1	May	+ 3.1
Switzerland	+ 1.2	Jul	+ 0.9	+ 1.1	+ 1.1	+ 1.1	Jul	+ 1.3	+ 0.9	2004	+ 1.4
United States	+ 3.2	Jul	+ 3.0	+ 2.9	+ 2.6	+ 4.6	Jul	+ 4.0	+ 2.7	Jul	+ 2.0
Euro area	+ 2.2	Jul	+ 2.3	+ 2.0	+ 1.6	+ 4.3	Jun	+ 2.4	+ 3.1	Q1	+ 3.0
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.0	Jul	+ 0.3	na	na	+ 4.0	Jul	+ 1.5	+ 4.0	Q2	+ 3.8
Greece	+ 3.9	Jul	+ 2.9	na	na	+ 5.0	Jun	+ 4.8	na		na
Iceland	+ 3.7	Aug	+ 3.7	na	na	+ 4.3	Aug	+ 5.7	+ 6.6	Jul	+ 5.1
Ireland	+ 2.4	Jul	+ 2.7	na	na	– 0.3	Jun	+ 1.3	+ 6.4	Q1	+ 3.9
Luxembourg	+ 2.6	Jul	+ 2.4	na	na	+ 5.4	Jun	+ 9.2	+ 0.4	May	+ 2.4
New Zealand	+ 2.8	Q2	+ 2.4	na	na	+ 4.7	Q2	+ 1.5	+ 2.6	Q2	+ 2.3
Norway	+ 1.4	Jul	+ 1.5	na	na	+19.3	Jul	+13.9	+ 3.7	Q1	+ 3.5
Portugal	+ 2.2	Jul	+ 2.8	na	na	+ 3.7	Jun	+ 2.3	– 0.2	Jun	– 0.1

*RPI inflation rate 2.9% in Jul. †Apr-Jun.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Economic performance versus potential

Aug 25th 2005
From The Economist print edition



The output gap is the difference between an economy's actual and potential GDP. Measuring potential GDP—which is the output consistent with full employment and stable inflation—is part science, part guesswork. Countries with positive output gaps are producing beyond their potential and tend to have accelerating inflation. Greece and Finland, unlike the rest of the euro area, have positive output gaps, according to the OECD.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Money and interest rates

Aug 25th 2005
From The Economist print edition

	Money supply* % change on year ago			Interest rates % a year (Aug 24th 2005)					
				3-mth money market		2-year	10-year gov't bonds		corporate
	narrow	broad		latest	year ago	gov't bonds	latest	year ago	bonds
Australia	+ 5.3	+10.6	Jun	5.61	5.43	5.04	5.13	5.60	6.14
Britain	+ 4.9	+11.3	Jul	4.56	4.91	4.17	4.23	4.95	5.18
Canada	+ 8.4	+10.4	Jun	2.76	2.16	3.11	3.88	4.67	5.20
Denmark	+22.0	+15.7	Jul	2.20	2.25	2.19	3.13	4.15	4.89
Japan	+ 4.4	+ 1.7	Jul	0.02	0.03	0.14	1.42	1.62	1.54
Sweden	+ 1.8	+ 9.4	Jun	1.48	2.01	2.04	3.05	4.34	2.85
Switzerland	+ 0.5	+ 7.3	Jul	0.76	0.58	0.97	1.92	2.72	1.89
United States	+ 1.1	+ 5.0	Jul	3.65	1.64	3.99	4.20	4.26	5.11
Euro area†	+10.5	+ 7.5	Jun	2.13	2.12	2.22	3.14	4.03	3.40

*Narrow: M1 except Britain and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.39%, Japan No. 270 1.42%. Central bank rates: US fed funds 3.50%, ECB refinancing 2.00%, BOJ overnight call 0.001%, BOE repo 4.5%. Sources: Bank of Canada, Commerzbank, Danske Bank, J.P. Morgan Chase, Stockholmsbörsen, UBS, Global Insight, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

The Economist commodity price index

Aug 25th 2005
From The Economist print edition

2000=100

	Aug 16th	Aug 23rd*	% change on one month	% change on one year
Dollar index				
All items	132.5	132.6	– 1.6	+ 5.9
Food	123.2	123.2	– 4.3	+ 1.6
Industrials				
All	144.7	144.8	+ 1.5	+11.0
Nfa†	127.2	127.7	– 5.5	– 4.1
Metals	154.2	154.1	+ 5.1	+19.5
Sterling index				
All items	111.1	111.8	– 4.7	+ 5.7
Euro index				
All items	99.4	100.5	– 3.0	+ 5.2
Yen index				
All items	134.4	135.0	– 3.8	+ 6.1
Gold				
$ per oz	444.05	439.15	+ 3.5	+ 8.3
West Texas Intermediate				
$ per barrel	66.12	65.38	+10.6	+44.6

* Provisional. † Non-food agriculturals.

Our commodity-price index was rebased in February 2005.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Stockmarkets

Aug 25th 2005
From The Economist print edition

Market indices

	Aug 24th	2005 high	2005 low	% change on one week	% change on record high	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
Australia (All Ordinaries)	4,417.0	4,462.7	3,905.5	- 0.3	- 1.0	+ 9.0	+ 5.1
Austria (ATX)	3,195.9	3,260.7	2,415.0	+ 0.1	- 2.0	+31.4	+18.5
Belgium (Bel 20)	3,234.5	3,314.8	2,958.8	- 1.4	-12.2	+10.3	- 0.6
Britain (FTSE 100)	5,275.2	5,377.5	4,783.6	- 0.3	-23.9	+ 9.6	+ 2.7
Canada (Toronto Composite)	10,509.7	10,699.9	9,006.2	+ 0.1	- 7.7	+13.7	+13.8
Denmark (KBX)	330.9	337.5	257.8	- 1.0	- 2.0	+28.4	+15.4
France (SBF 250)	3,078.1	3,146.1	2,633.6	- 0.3	-29.9	+16.9	+ 5.3
(CAC 40)	4,424.4	4,527.1	3,816.1	- 0.3	-36.1	+15.8	+ 4.4
Germany (DAX)*	4,916.0	4,990.6	4,178.1	+ 0.9	-39.0	+15.5	+ 4.1
Italy (S&P/MIB)	33,647.0	34,027.0	30,645.0	+ 0.5	-32.9	+ 8.9	- 1.9
Japan (Nikkei 225)	12,502.3	12,502.3	10,825.4	+ 1.9	-67.9	+ 8.8	+ 1.1
(Topix)	1,275.6	1,275.6	1,109.2	+ 2.0	-55.8	+11.0	+ 3.1
Netherlands (AEX)	389.9	401.6	347.0	- 0.9	-44.4	+12.0	+ 1.0
Spain (Madrid SE)	1,087.5	1,103.7	950.9	- 0.1	- 5.1	+13.4	+ 2.2
Sweden (Affarsvarlden Gen)	257.3	263.6	218.9	- 1.2	-35.7	+16.3	+ 1.5
Switzerland (Swiss Market)	6,537.0	6,689.2	5,669.6	- 1.4	-22.3	+14.8	+ 3.0
United States (DJIA)	10,434.9	10,940.6	10,012.4	- 1.1	-11.0	- 3.2	- 3.2
(S&P 500)	1,209.6	1,245.0	1,137.5	- 0.9	-20.8	- 0.2	- 0.2
(NASDAQ Comp)	2,128.9	2,218.2	1,904.2	- 0.8	-57.8	- 2.1	- 2.1
Europe (FTSEurofirst 300)†	1,181.2	1,199.9	1,038.6	- 0.4	-30.7	+13.4	+ 2.2
Euro area (FTSE Euro 100)†	1,005.9	1,026.7	894.4	nil	-35.1	+11.7	+ 0.7
World (MSCI)‡	1,189.1	1,212.0	1,115.0	- 0.6	-17.9	+ 1.7	+ 1.7
World bond market (Citigroup)††	641.8	662.3	626.9	- 0.1	- 3.1	- 3.7	- 3.7

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Trade, exchange rates and budgets

Aug 25th 2005
From The Economist print edition

	Trade balance*, $bn latest 12 months		Current-account balance $bn latest 12 mths		The Economist poll % of GDP, forecast 2005	2006	Exchange rate trade-weighted† 2000=100 Aug 24th	year ago	Currency units per $ Aug 24th	year ago	per £	per euro	per ¥100	Budget balance % of GDP 2005‡
Australia	− 17.7	Jun	− 42.4	Q1	− 5.9	− 5.6	117.0	109.9	1.32	1.41	2.38	1.62	1.20	+ 0.9
Austria	− 1.6	May	nil	Jun	− 0.3	− 0.3	103.7§	103.8	0.82	0.83	1.47	–	0.74	− 2.0
Belgium	+ 15.1	Jun	+ 12.2	Mar	+ 2.9	+ 2.8	104.1§	104.2	0.82	0.83	1.47	–	0.74	− 0.5
Britain	−111.2	Jun	− 44.0	Q1	− 2.5	− 2.6	99.7	100.9	0.56	0.56	–	0.68	0.50	− 2.9
Canada	+ 46.2	Jun	+ 20.2	Q1	+ 1.3	+ 1.2	119.4	110.8	1.20	1.30	2.15	1.47	1.08	+ 1.2
Denmark	+ 9.9	Jun	+ 10.8	Jun	+ 2.0	+ 1.8	105.8	105.8	6.09	6.15	10.9	7.46	5.52	+ 1.8
France	− 26.4	Jun	− 22.6	Jun	− 0.7	− 0.5	106.6§	106.8	0.82	0.83	1.47	–	0.74	− 3.0
Germany	+198.5	Jun	+108.5	Jun	+ 3.7	+ 3.5	104.3§	104.5	0.82	0.83	1.47	–	0.74	− 3.5
Italy	− 6.8	May	− 23.7	Jun	− 1.4	− 1.5	76.4§	76.5	0.82	0.83	1.47	–	0.74	− 4.4
Japan	+113.2	Jun	+166.0	Jun	+ 3.5	+ 3.4	86.8	87.3	110	110	198	135	–	− 6.1
Netherlands	+ 40.9	Jun	+ 28.3	Q2	+ 3.7	+ 3.6	103.5§	103.6	0.82	0.83	1.47	–	0.74	− 2.2
Spain	− 88.1	May	− 72.6	May	− 5.4	− 5.5	77.0§	77.1	0.82	0.83	1.47	–	0.74	+ 0.5
Sweden	+ 22.2	Jul	+ 27.9	Q2	+ 5.7	+ 5.2	96.2	97.9	7.62	7.58	13.7	9.33	6.91	+ 0.8
Switzerland	+ 7.1	Jul	+ 40.2	Q1	+11.2	+10.8	106.7	107.0	1.27	1.27	2.28	1.55	1.15	− 1.0
United States	−723.4	Jun	−717.0	Q1	− 6.3	− 6.2	84.8	87.3	–	–	1.80	1.23	0.91	− 4.1
Euro area	+ 61.5	Jun	+ 16.1	Jun	+ 0.4	+ 0.4	115.9	114.8	0.82	0.83	1.47	–	0.74	− 2.8
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*													
Finland	+ 12.1	Jun	+ 6.0	Jun	na	na	81.2§	81.4	0.82	0.83	1.47	–	0.74	+ 1.3
Greece	− 33.7	May	− 15.5	Jun	na	na	59.7§	59.8	0.82	0.83	1.47	–	0.74	− 3.8
Iceland	− 0.9	Jun	− 1.4	Q1	na	na	105.7**	95.1	63.8	72.1	115	78.2	57.8	+ 1.1
Ireland	+ 40.2	Jun	− 3.1	Q1	na	na	93.6§	93.7	0.82	0.83	1.47	–	0.74	− 0.7
Luxembourg	− 4.4	May	+ 3.0	Q1	na	na	104.1§	104.2	0.82	0.83	1.47	–	0.74	− 0.8
New Zealand	− 3.7	Jul	− 7.0	Q1	na	na	136.7	129.4	1.43	1.54	2.57	1.75	1.30	+ 3.2
Norway	+ 41.2	Jul	+ 37.9	Q1	na	na	110.2	104.3	6.50	6.88	11.7	7.96	5.89	+ 14.4
Portugal	− 20.6	May	− 15.7	Jun	na	na	94.3**	93.3	0.82	0.83	1.47	–	0.74	− 5.3

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, June average. ‡OECD forecast. ††New series. **IMF, April average.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Exchange-rate forecasts

Aug 25th 2005
From The Economist print edition

Exchange-rate forecasts

Currency units per dollar

	Aug 24th	3-month	12-month
Euro area*	1.22	1.16	1.17
Japan	110	114	114
Australia	1.32	1.41	1.41
Britain†	1.80	1.71	1.68
Canada	1.20	1.25	1.24
Denmark	6.11	6.41	6.38
Sweden	7.64	8.03	7.91
Switzerland	1.27	1.33	1.31
China	8.10	7.74	7.50
Singapore	1.67	1.63	1.60
South Korea	1,027	1,032	970
Brazil	2.40	2.41	2.53
Mexico	10.9	11.3	11.6
Poland	3.29	3.26	3.14
Russia	28.5	29.0	28.8
South Africa	6.48	6.68	6.67

Source: J.P. Morgan Chase *$ per € †$ per £

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Overview

Aug 25th 2005
From The Economist print edition

Malaysia's GDP grew by 4.1% in the year to the second quarter, its slowest pace for three years. Analysts blamed China's diminished appetite for imports. But **Taiwan's** growth quickened to 3.0% over the same period, from 2.5% in the year to the first quarter.

Singapore's brief bout with deflation may be at an end. Consumer prices rose by 0.1% in the year to July, after falling by 0.2% in the year to June.

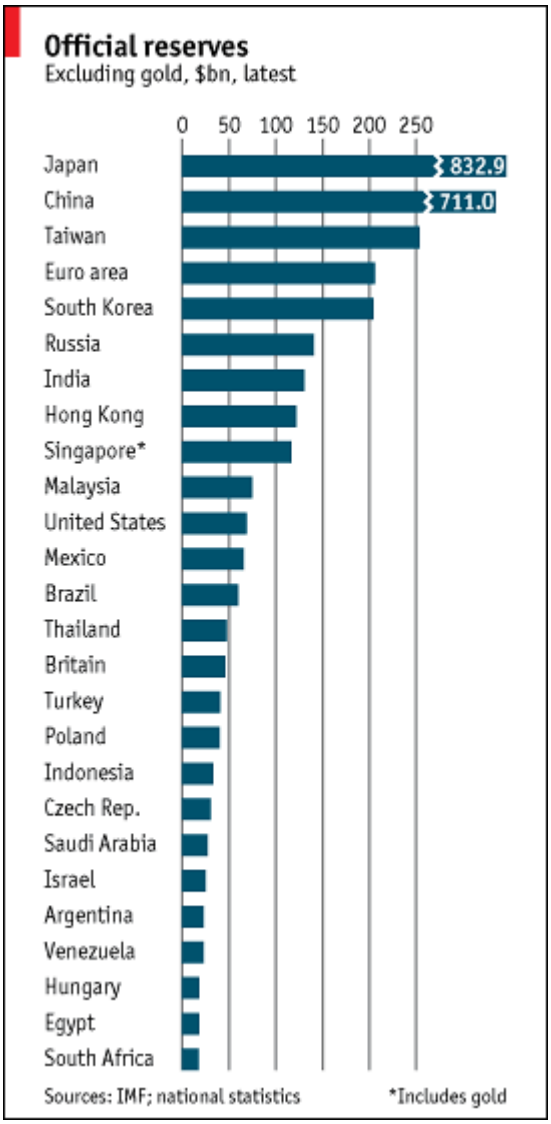
Both **Chile** and **Venezuela** enjoyed an acceleration of economic growth in the year to the second quarter. Chile's GDP expanded by 6.5%; Venezuela's by 11.1%.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.

Official reserves

Aug 25th 2005
From The Economist print edition

Asia holds almost 64% of the world's official reserves, compared with the euro area's 5% and America's 2%. Japan has the largest reserves, but China's stock, having tripled in the past three years, is not far behind. The figures in the table include foreign-exchange assets, special drawing rights and reserve positions at the IMF, but exclude gold. The amount of reserves indicates a country's ability to pay international obligations. The dollar's position as the world's main reserve currency means that America does not need to hold reserves as big as other countries'.



Economy

Aug 25th 2005
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+ 9.5	Q2	+16.1	Jul	+ 1.8	Jul	+87.6	Jul	+68.7	2004	711.0	Jun
Hong Kong	+ 6.0	Q1	– 0.6	Q1	+ 1.3	Jul	– 9.7	Jun	+18.5	Q1	121.9	Jul
India	+ 7.0	Q1	+11.7	Jun	+ 3.3	Jun	–33.0	Jul	– 6.4	Q1	130.1	Jul
Indonesia	+ 5.5	Q2	+10.1	Mar	+ 7.8	Jul	+27.4	Jun	+ 7.8	Q1	32.6	Jun
Malaysia	+ 4.1	Q2	+ 3.4	Jun	+ 3.0	Jul	+24.0	Jun	+16.7	Q1	74.5	Jun
Philippines	+ 4.6	Q1	+ 5.4	May	+ 7.1	Jul	– 0.1	May	+ 2.9	Mar	15.1	Jul
Singapore	+ 5.2	Q2	+11.1	Jun	+ 0.1	Jul	+16.9	Jul	+32.5	Q2	116.3	Jul
South Korea	+ 3.3	Q2	+ 4.1	Jun	+ 2.5	Jul	+26.0	Jul	+23.2	Jun	204.1	Jun
Taiwan	+ 3.0	Q2	+ 1.3	Jun	+ 2.4	Jul	+ 2.1	Jul	+13.3	Q2	253.6	Jul
Thailand	+ 3.3	Q1	+ 8.8	Jun	+ 5.3	Jul	– 6.7	Jun	– 2.2	Jun	47.2	Jun
Argentina	+ 8.0	Q1	+ 1.7	Jun	+ 9.6	Jul	+11.0	Jun	+ 2.8	Q1	22.3	Jun
Brazil	+ 2.9	Q1	+ 6.3	Jun	+ 6.6	Jul	+39.9	Jul	+13.4	Jul	59.4	Jun
Chile	+ 6.5	Q2	+ 7.4	Jun	+ 3.1	Jul	+ 8.7	Jul	+ 1.1	Q1	16.2	Jul
Colombia	+ 3.6	Q1	+ 3.0	Jun	+ 4.9	Jul	+ 1.5	Apr	– 0.8	Q1	13.7	Jul
Mexico	+ 3.1	Q2	+ 0.7	Jun	+ 4.5	Jul	– 9.6	Jul	– 8.4	Q2	65.6	Jun
Peru	+ 4.6	Jun	+ 5.9	Jun	+ 1.4	Jul	+ 3.8	Jun	+ 0.4	Q1	14.5	Jul
Venezuela	+11.1	Q2	+10.4	May	+15.3	Jul	+24.7	Q2	+17.7	Q2	22.3	May
Egypt	+ 4.7	Q4	+ 3.3	2004†	+ 4.7	Jun	– 9.5	Q1	+ 4.4	Q1	17.6	Jun
Israel	+ 4.8	Q2	+ 0.5	Jun	+ 1.6	Jul	– 8.0	Jul	+ 1.9	Q1	24.5	Jul
South Africa	+ 4.5	Q2	+ 2.3	Jun	+ 3.4	Jul	– 2.1	Jun	– 8.5	Q1	17.2	Jul
Czech Republic	+ 4.4	Q1	+ 3.7	Jun	+ 1.7	Jul	+ 1.0	Jun	– 4.4	Q1	29.8	Jul
Hungary	+ 2.9	Q1	+ 6.5	Jun	+ 3.7	Jul	– 2.7	Q1	– 9.2	Q1	17.7	Jul
Poland	+ 2.9	Q2	+ 2.6	Jul	+ 1.3	Jul	– 3.4	Jun	– 0.2	Jun	39.8	Jun
Russia	+ 5.2	Q1	+ 4.9	Jul	+12.5	Jul	+106.9	Jun	+69.2	Q1	140.9	Jul
Turkey	+ 4.8	Q1	+ 1.6	Jun	+ 7.8	Jul	–38.3	Jun	–19.3	Jun	40.0	Jun
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+ 7.2	Q1	+11.1	Jun	+ 3.8	Jul	– 2.3	Jun	– 1.3	Jun	1.7	Jun
Latvia	+ 7.4	Q1	+ 9.0	Jun	+ 6.1	Jul	– 2.7	Jun	– 1.5	Jun	2.1	Jun
Lithuania	+ 8.2	Q2	na		+ 1.8	Jul	– 3.2	Jun	– 1.5	Q1	3.4	Jun
Slovakia	+ 5.1	Q2	+ 1.6	Jun	+ 2.0	Jul	– 2.0	Jun	– 2.0	Apr	15.1	Jun
Slovenia	+ 2.6	Q1	+ 1.0	Jun	+ 2.3	Jul	– 1.3	Jun	nil	Jun	7.7	May
Pakistan	+ 8.4	2005†	+13.6	Apr	+ 9.0	Jul	– 6.7	Jul	– 1.5	Q2	10.4	May
Saudi Arabia	+ 5.2	2004	na		+ 0.3	May	+84.9	2004	+51.5	2004	26.7	May

*Excluding gold, except Singapore; IMF definition. †Year ending June.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group.

Financial markets

Aug 25th 2005
From The Economist print edition

	Currency units per $ Aug 24th	Currency units per $ year ago	Currency units per £ Aug 24th	Interest rates short-term % a year	Stockmarkets Aug 24th	% change on one week	% change on Dec 31st 2004 in local currency	% change on Dec 31st 2004 in $ terms
China	8.10	8.28	14.6	2.70	1,226.6	-2.1	- 7.8	- 5.8
Hong Kong	7.77	7.80	14.0	3.82	14,873.9	-3.7	+ 4.5	+ 4.5
India	43.7	46.3	78.6	5.19	7,612.0	-3.1	+ 15.3	+ 14.6
Indonesia	9,005	9,275	16,196	9.45	1,035.4	-7.0	+ 3.5	+ 6.7
Malaysia	3.77	3.80	6.78	2.89	926.1	nil	+ 2.1	+ 2.9
Philippines	56.0	56.0	100.8	7.31	1,924.2	-3.1	+ 5.6	+ 5.8
Singapore	1.67	1.71	3.01	2.00	2,278.4	-0.1	+ 10.3	+ 7.7
South Korea	1,028	1,156	1,848	3.49	1,094.2	-1.7	+ 22.1	+ 23.0
Taiwan	32.3	34.1	58.1	1.45	6,127.2	-1.8	- 0.2	- 2.0
Thailand	41.1	41.7	73.9	3.35	695.7	+4.2	+ 4.1	- 1.6
Argentina	2.91	2.99	5.23	4.93	1,536.0	+3.0	+ 11.7	+ 14.1
Brazil	2.42	2.95	4.34	19.74	26,712.0	- 2.6	+ 2.0	+ 12.1
Chile	549	625	988	3.72	9,887.5	+0.8	+ 10.3	+ 11.7
Colombia	2,305	2,571	4,145	6.99	6,936.1	-0.8	+ 59.6	+ 62.9
Mexico	10.9	11.4	19.6	9.57	14,603.0	+0.3	+ 13.0	+ 15.7
Peru	3.26	3.38	5.86	2.95	4,559.5	+0.1	+ 22.9	+ 23.8
Venezuela	2,690§	2,596§	4,839	11.11	18,836.0	-0.9	- 37.1	- 39.7
Egypt	5.77	6.23	10.38	9.40	41,415.3	+0.1	+ 68.5	+ 77.2
Israel	4.49	4.54	8.08	3.64	710.8	-1.2	+ 10.4	+ 6.2
South Africa	6.48	6.68	11.7	7.10	15,435.1	-0.5	+ 22.0	+ 6.0
Czech Republic	24.2	26.3	43.6	1.79	1,310.2	+1.4	+ 27.0	+ 17.1
Hungary	200	206	361	6.11	21,028.4	+1.9	+ 42.6	+ 28.6
Poland	3.29	3.67	5.91	4.68	30,697.4	-0.6	+ 15.2	+ 5.1
Russia	28.5	29.2	51.2	13.00	863.5‡	+2.0	+ 44.4	+ 40.6
Turkey	1.37	1.51	2.46	16.15	29,372.2	+5.3	+ 17.6	+ 15.7
EM (MSCI)*	1.00	1.00	1.80	na	604.3	-1.9	+ 11.5	+ 11.5
EMBI+†	1.00	1.00	1.80	na	349.0	-0.1	+ 5.9	+ 5.9

*Emerging Mkts. †J.P. Morgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Floating exchange rate.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group.

Copyright © 2005 The Economist Newspaper and The Economist Group. All rights reserved.